Mizuho Dealer's Eye

April 2024

Mizuho Bank, Ltd.

Global Markets Sales & Trading Department

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U.S. Dollar – April 2024

Expected Ranges **Against the yen: JPY146.50–154.00**

1. Review of the Previous Month

In March, the dollar/yen pair fell in the first half of the month on reports related to expectations for a policy shift by the Bank of Japan (BOJ). The BOJ's Monetary Policy Meeting did indeed shift policy, with negative interest rates abolished, but the pair then rose on a dearth of new factors and BOJ governor Kazuo Ueda's dovish press conference. There were concerns of an intervention in the latter half of the month, but the pair still climbed for a time to 151.97 yen, its highest level in 34 years, with the pair then floating at highs around 151 yen.

(Week 1 and 2) The pair opened the month trading at 150.08 yen during Tokyo trading time. With BOJ governor Kazuo Ueda then stating that inflation had still not reached target, the pair rose to the mid-150 yen level, though it then weakened during overseas trading time on the worse-than-expected result of the US February Manufacturing ISM Report on Business, for example, with the pair eventually closing the week at 150.13 yen. It opened the second week trading at 150.13 yen on March 4 before then hitting a weekly high of 150.57 yen. The US released a weak February Non-manufacturing ISM Report on Business on March 5, with US interest rates falling and the currency pair sliding to the upper-149 yen mark. The yen continued to be bought from March 6 on intermittent reports about an anticipated early BOJ policy tweak. The US February employment data was released on March 8. The number of people in work had grown steadily, but the unemployment rate hit a roughly 2-year high close to 4%, with the average hourly wages figure also slowing, so the currency pair hit a weekly low of 146.48 yen before recovering slightly to close the week at 147.09 yen.

(Week 3) After opening the third week at 146.80 yen on March 11, the pair temporarily dipped to 146.49 yen on growing expectations for a BOJ policy shift, though it then climbed when the US February CPI data (released March 12) swung upwards. The pair fell sharply on BOJ-related news on March 14, though the greenback was bought on rising US interest rates during overseas trading time on March 15, with the pair hitting a weekly high of 149.17 yen before closing at 149.08 yen.

(Week 4) The pair opened the fourth week trading at 148.95 yen on March 18. On March 19, the BOJ announced a policy shift, including a scrapping of negative interest rates. However, the pair then rose on a dearth of new factors, BOJ governor Kazuo Ueda's dovish press conference, and the bullish result of a US economic indicator (released during overseas trading time), with the pair strengthening to the upper-151 yen level. As expected, the FOMC unanimously decided to keep policy rates fixed when it met on March 20. The revised dot chart and FRB chair Jerome Powell's press conference were read as dovish, so the pair was pushed back to the lower-150 yen mark. However, the greenback was then bought over March 21–22 as US interest rates rose on the firm results of US indicators, with the currency pair temporarily hitting 151.86 yen, a high for the year. It then dropped back slightly to close at 151.49 yen.

(Week 5) The pair opened the fifth week trading at 151.31 yen on March 25. The Japanese authorities made some comments to restrain the yen's weakness over March 25–26, though the market reaction was muted, with the pair moving in a narrow range around the lower-151 yen level. It temporarily hit a 34-year high of 151.97 yen on March 27 on dovish comments by BOJ board member Naoki Tamura. Japanese authority figures then voiced more caution about the yen's weakness. With the Japanese Finance Ministry, Financial Services Agency and the BOJ also meeting, the HL fell and the pair floated at highs in the 151 yen range to trade around 151.30 yen (as of 12:00 Tokyo time on March 29).

2. Outlook for This Month

The dollar/yen pair might fall sharply in April on concerns over an intervention or on an actual intervention. However, the pair will probably move firmly on expectations for later and slower-paced rate cuts on bullish US economic indicators and stubborn inflation fears.

When the FOMC met over March 19‐20, it maintained the status quo for the fifth straight meeting. Market participants were expecting the dot chart outlook to be scaled back to around two rate cuts in 2024, but the outlook was left at three rate cuts within the year, unchanged on the last meeting in December 2023. In his press conference, FRB chair Jerome Powell said it would be appropriate to commence easing within the year. On March 27, though, FRB governor Christopher Waller said it would be appropriate to "to reduce the overall number of rate cuts or push them further into the future in response to the recent data," adding that "there was no rush to begin cutting interest rates." Expectations for the timing or the pace of rate cuts might get pushed back further this month on strong US economic indicators, rising inflation concerns, and hawkish comments by high-ranking US officials, with this likely to act as the main driver pushing the currency pair higher.

At the BOJ's Monetary Policy Meeting held on March 18 and 19, it announced a policy shift that included an end to negative interest rates. However, the currency pair then hit a 34-year high of 151.97 yen on a dearth of factors, with the yen continuing to weaken. The Japanese authorities have voiced even more caution about yen bearishness, but even if they carry out an intervention, this is only likely to push the pair temporarily lower by around five yen.

Investors will continue to monitor US inflation and employment indicators, with the pair likely to trade with an eye on the economic data and comments by US officials. There will also be some real-demand dollar buying related to Japan's trade deficit, with the pair also likely to be supported as retail investors buy the greenback through the new NISA scheme.

The BOJ and FOMC will be meeting to set policy towards the end of this month and the start of the next. The BOJ only recently scrapped negative interest rates in March, so it is unlikely to hike rates again this month. With both banks likely to keep policy fixed for now, the meetings will have limited impact on the markets.

Dealers' Market Forecast

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

Bullish on the dollar	12 bulls	155.00 – 148.00	Bearish on the dollar	4 bears	152.50 – 147.00

* Ranges are central values

Miyachi	Bull	155.00 – 148.00	There is a scarcity of yen-buying factors, with dollar bullishness also supported by expectations for later FRB rate cuts. The Japanese Finance Ministry, Financial Services Agency and the BOJ will be meeting and there will be concerns over an intervention, but with volatility low, there is likely to be some yen carry trades, with investors likely to test the dollar/yen pair's topside.
Kawai	Bull	154.00 – 146.50	The dollar/yen pair might fall sharply in April on concerns over an intervention or on an actual intervention. However, the pair will probably move firmly on expectations for later and slower-paced US rate cuts on bullish US economic indicators and stubborn inflation fears.
Kawabata	Bull	155.00 – 147.00	The FRB has stuck to its outlook for three rate cuts within the year, but officials have struck a cautious tone about early rate cuts, so the greenback will be susceptible to buy-backs depending on the results of indicators. Though the BOJ scrapped negative interest rates, any yen buying was muted, so the dollar/yen pair will probably edge higher this month, despite concerns over an intervention.
Kato	Bear	152.50 – 145.00	The US labor market is moving unexpectedly firmly and there has been an accumulation of speculative yen carry trades. However, there could be some substantial unwinding of yen shorts if it seems Donald Trump could become president again.
Ito	Bull	155.00 – 146.00	Inflation is gradually slowing in the US, but the FRB has pushed back any early rate cuts. The BOJ has taken the first step towards shifting policy, though it remains in easing mode, with the yen unlikely to rise sharply given the real-demand flow. The time will be ripe for some buying when the pair is pushed lower by an intervention.
Yamazaki	Bull	155.00 – 146.80	The yen weakened after the BOJ's monetary policy decision, with investors now focusing on the possibility of an intervention. There remains strong upwards pressure, but the dollar/yen pair could move with a heavy topside on these concerns. The pair will edge higher on US trends, but market participants should remain vigilant about an intervention.
Yamaguchi	Bear	153.00 – 147.00	The US has pushed back the commencement of easing and it seems unlikely that the BOJ will implement another rate hike within the year, so the dollar/yen pair look set to move firmly on flow movements. However, the pair is unlikely to rise sharply given concerns over an intervention.
Tagawa	Bull	152.60 – 150.50	Though the BOJ scrapped negative interest rate, the dollar/yen pair still topped its recent 2022 high. The FOMC is unlikely to cut rates when it meets on May 1. The yen could be pushed higher by an intervention, but the dollar looks set to move bullishly overall.
Matsunaga	Bear	152.50 – 148.00	It is hard to imagine the FRB rushing haphazardly to cut rates given the current tight labor market, but the dollar/yen pair's topside will also be capped by concerns about an intervention. Expectations for further BOJ tightening might also grow on rising wages in Japan.
Katoono	Bull	155.00 – 147.00	The dollar/yen pair could fall sharply at times on an intervention by the Japanese government and the BOJ, but Japanese/US interest-rate differentials are only likely to shrink at a slow pace, while the structural supply and demand situation is unlikely to change, with the dollar/yen pair set to continue moving in the same direction. Investors could test the pair's topside amid a battle over an intervention.
Okuma	Bull	153.00 – 148.00	Though the BOJ scrapped negative interest rates, the yen remained subdued, with the yen likely to weaken as investors focus on continued easing. The US economy is moving firmly and US stocks continue to hit record highs, so a phase of yen bullishness seems unlikely.

Han	Bear	152.50 – 147.00	The dollar/yen pair will continue to move with a heavy topside on concerns about an intervention. With small and medium sized companies also hiking wages, expectations for further BOJ rate hikes might flare up again. If this happens, the yen could be bought at times.
Ito (Motoi)	Bull	155.00 – 148.00	The dollar/yen pair is likely to move in tandem with the macro-environment. It is hard to imagine the BOJ hiking rates again, so there are no reasons to actively buy the yen. Under these circumstances, the pair looks set to continue edging higher.
Suzuki	Bull	154.00 – 148.00	The BOJ has hinted that it will keep policy accommodative for now. In the US, meanwhile, expectations for rate cuts continue to wane. Though investors need to be wary of moves by the authorities, the dollar/yen pair looks set to continue moving firmly on persistent demand for yen selling.
Nishi	Bull	155.00 – 148.00	Though the BOJ has scrapped negative interest rates, the Japanese government and the BOJ remain in easing mode. Even if there is a fully-fledged intervention, the dollar/yen pair will probably be bought on the dip. Furthermore, the FRB remains cautious about early rate cuts, so the pair looks set to remain firm.
Matsuki	Bull	155.00 – 149.00	Though the BOJ has scrapped negative interest rates, it has said it will maintain an accommodative monetary policy, so investors will find it hard to actively buy the yen. There will be strong resistance at 152 yen, but if the dollar/yen pair tops this level, it will probably gain a sense of momentum.

Takuya Nishi, Forex Sales, Global Markets Sales & Trading Department

Euro – April 2024

Expected Ranges	**Against the US$: US$1.0600–1.0900**
	Against the yen: JPY160.00–166.00

1. Review of the Previous Month

The euro/dollar pair swung to and fro in March.

The preliminary eurozone February CPI data was released on March 1, with the headline and core figures both up on expectations. The euro was bought straight after, but this trend was short-lived, with the single currency then sold and the currency pair temporarily dropping below $1.08. However, the greenback was then sold on the bearish results of some US economic indicators, so the pair strengthened to around $1.0840.

The pair climbed in the latter half of the second week on falling US interest rates. The pound was bought on March 4, with this also pushing the euro/dollar pair to the upper-$1.08 mark. The pair climbed to $1.09 on March 6 on falling US interest rates and the firm movements of European stocks. The ECB Governing Council kept policy rates fixed when it met on March 7. It also downgraded its inflation forecast, with the currency pair plunging to the upper-$1.08 level for a time. However, ECB president Christine Lagarde's subsequent press conference was less dovish than expected, so German interest rates rose and the euro/dollar pair rallied to hit the mid-$1.09 mark, its highest level in around six weeks. On March 8, Bank of France governor François Villeroy de Galhau hinted that rate cuts might commence from April or June, with the currency pair subsequently dropping back to the lower-$1.09 mark. It then hit a high of $1.0980 on the lackluster results of the US February employment data.

The pair fell slightly in the third week. It moved bearishly on rising US interest rates on March 11. The US released some strong February CPI data on March 12, so the pair temporarily fell to around $1.09. It then climbed to a weekly high of $1.0963 on March 13 on rising German interest rates and European stocks. The US released some stronger-than-expected February PPI data on March 14. With an ECB official also making some dovish comments, the pair dropped below $1.09 for a time.

The pair jostled up and down on the results of central bank meetings in the fourth week. On March 18, it moved firmly to climb to the lower-$1.09 level on the result of the eurozone February HICP (final figures). On March 20, a wait-and-see mode prevailed ahead of the FOMC meeting, though the euro was then sold when ECB president Christine Lagarde hinted at early rate cuts. At its closely-watched meeting, the FOMC kept rates fixed, though the greenback was sold and the currency pair bounced back on dovish comments by FRB chair Jerome Powell. The pair edged up to $1.0923 on March 21, but Switzerland's central bank then announced a rate cut. With the eurozone also releasing a worse-than-expected preliminary March Manufacturing PMI figure, the currency pair fell sharply. The US then released a stronger-than-expected preliminary March Manufacturing PMI during US trading time, so the dollar was bought at a faster clip and the pair weakened to the upper-$1.08 mark. Euro selling and dollar buying continued on March 22, with the pair's downside edging lower.

The pair fell in the latter half of the fifth week on dovish comments by ECB officials and some bearish European economic indicators. It strengthened to the mid-$1.08 level on March 25 as German interest rates rose and European stocks moved firmly. With the markets reacting warmly to bullish European stock movements, the pair continued rising to temporarily hit a weekly high of $1.0864 on March 26. It then tumbled on March 28 on the weak German

February retail sales data and dovish comments by Bank of Italy governor Fabio Panetta, for example. The pair then moved with a heavy topside on Good Friday (March 29).

2. Outlook for This Month

The euro/dollar pair is expected to trade with a heavy topside in April.

As the markets had expected, the ECB Governing Council kept its main policy rates fixed when it met in March. The ECB's staff outlook was released at the same time. Growth projections were revised downwards for 2024 (and upwards for 2026) compared the outlook at the previous meeting in December, with the projections for headline and core inflation also downgraded. However, though inflation is moving toward the 2% target, the Council said further data or evidence would be needed to corroborate this trend. In her press conference, ECB president Christine Lagarde said the Council had not discussed lowering rates, though she mentioned the ECB had "begun discussing the dialing back of our restrictive stance." She also said there was broad agreement that although data would be thin in April, a lot more data would be available by the time of the June meeting. As such, it seems likely the ECB will continue monitoring the data for now.

Furthermore, it seems likely that the eurozone will avoid falling into a deep recession, as previously feared. However, ECB officials continue to voice concerns about an economic downswing while dropping dovish hints about early rate cuts. Investors are steadily pricing in a June rate cut, with the euro/dollar pair's topside likely to grow heavier as a result. At one point, it seemed likely the US would also implement a rate cut in June, but several officials have since voiced caution about early rate cuts. As such, the main scenario might shift to one where the ECB cuts rates in June while the FRB postpones such a move, so caution will be needed. There will be several other factors weighing the pair down too, with the RMB being sold against the dollar, for example.

Dealers' Market Forecast

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

Bullish on the euro	3 bulls	1.0950 – 1.0700	Bearish on the euro	13 bears	1.0900 – 1.0600

* Ranges are central values

Miyachi	Bear	1.0900 – 1.0550	The market will be influenced by the divergent rate-cut stances of the FRB and ECB. With investors focusing on the strength of the US economy, the euro/dollar pair's room on the topside will be capped.
Kawai	Bull	1.0950 – 1.0700	The ECB Governing Council will be meeting mid-April and the FOMC around the month's end. Both are likely to keep policy rates fixed, with no new market trend forming. As such, the euro/dollar pair will probably trade in a range overall, though it could move somewhat bullishly on supply and demand related to the eurozone's current account balance.
Kawabata	Bear	1.0950 – 1.0650	Investors will continue searching for the timing on the first ECB rate cut on the weak growth outlook and slowing inflation. The ECB has taken a cautious stance as it monitors whether inflation is indeed cooling off, so for now the euro/dollar pair will probably be swayed more by speculation about FRB rate cuts within the year. The pair looks set to trade in a range with a downward bias.
Kato	Bear	1.0900 – 1.0500	The eurozone has a huge trade surplus, so the impact of slowing growth in Germany will be huge. It seems rate cuts will begin in June, but if a global rate-cut battle kicks off, the ECB will probably lower rates at a faster pace than the FRB.
Ito	Bear	1.0900 – 1.0500	There is a risk that the pace of US rate cuts might slow, but with several ECB officials making hawkish comments, a June ECB rate cut is looking more likely. With the greenback moving bullishly, the euro/dollar pair will move with a heavy topside. The recent movements of the RMB will also push the dollar higher across the board.
Yamazaki	Bear	1.1000 – 1.0700	The eurozone economy is moving firmly, so it seems the timing of eurozone rate cuts will be pushed back, just like in the US. As such, the euro/dollar pair will probably move with a lack of direction, though if anything it will face some strong downward pressure.
Yamaguchi	Bull	1.1000 – 1.0700	If the ECB discusses bringing forward its commencement of rate cuts, the euro will be sold. However, European economic indicators suggest the ECB will be in no rush to lower rates, so the euro/dollar pair looks set to remain firm for now.
Tagawa	Bull	1.0900 – 1.0550	With the March ECB Governing Council meeting now over, a consensus if forming that the ECB will implement its first rate cut in June or July. Investors are expecting the ECB to cut rates later than originally envisaged, probably around the same time as the FRB moves to lower rates. As such, the euro/dollar pair looks set to move flatly this month.
Matsunaga	Bear	1.0900 – 1.0600	From here on, investors will be watching to see whether the US or Europe cuts rates first. However, the markets are expecting the FRB and ECB to both wait until June or later to make any move, so the euro/dollar pair will probably continue trading without a sense of direction for now. With the SNB also implementing a surprise rate cut, the ECB could move somewhat bearishly.
Katoono	Bear	1.0850 – 1.0600	Market participants are moving faster to price in a June ECB rate cut while monitoring data about slowing wages and inflation in the eurozone. On the other hand, the FRB has taken a tougher stance than expected, with the euro/dollar pair likely to move bearishly on these divergent stances.
Okuma	Bear	1.1000 – 1.0700	Though it looks like the eurozone will manage to avoid slipping into a recession, expectations are growing that the ECB will cut rates earlier than the FRB on slowing inflation. The euro will probably be sold against the dollar on the differing economic situations in the US and Europe.

Han	Bear	1.0900 – 1.0500	The strength or weakness of the euro and dollar will be swayed by the timing of FRB and ECB rate hikes. It seems the ECB will make the first move, with the euro comparatively more susceptible to selling.
Ito (Motoi)	Bear	1.0900 – 1.0600	The US economy is moving firmly, with inflation continuing to trend lower, so the FRB will find it hard to cut rates. Europe is not in as good a macroeconomic situation as the US, so expectations for ECB rate hikes will easily flare up, with the euro/dollar pair set to continue moving bearishly as a result.
Suzuki	Bear	1.0900 – 1.0550	ECB rate cuts from June onwards seem nailed on judging by recent comments from ECB officials. With expectations for US rate cuts steadily waning, the euro/dollar pair will probably move bearishly on the divergent financial and economic trends in the US and Europe.
Nishi	Bear	1.0900 – 1.0600	Though the FRB has adopted a cautious stance towards early rate cuts, several ECB officials have made dovish comments, with the markets pricing in a June ECB rate cut. There are many factors weighing the euro/dollar pair down, including the SNB's rate cut and dollar selling against the RMB.
Matsuki	Bear	1.0900 – 1.0650	The ECB Governing Council is unlikely to cut rates when it meets this month, but a June rate cut seems likely. In the US, meanwhile, there are growing expectations that rate cuts will be pushed back on the strong economy. As such, the euro looks set to move bearishly against the dollar.

Masayuki Nakajima, Europe Treasury Department

British Pound – April 2024

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

1. Review of the Previous Month

In March, the GBP/USD pair rose around the time of the UK budget announcement on March 6, though its gains were then pared back on the surprisingly dovish BOE meeting and the trend of global dollar bullishness.

On March 1, the pair rallied on the better-than-expected results of the US February Manufacturing ISM Report on Business,

In the second week, the pair fell sharply on a growing market sense that the US would implement rate cuts from the middle of the year. This came after FRB chair Jerome Powell's testimony to Congress and the release of the February US employment data. The pair hit $1.2894 on March 8, up by around +2.2% on the end of February. The UK budget announcement was made on March 6. As expected, the chancellor Jeremy Hunt announced measures to alleviate pressures on households by cutting national insurance rates, for example. Employee national insurance contributions (deducted from salaries) were lowered from 10% to 8%. The Chancellor had already lowered the rate by 2%pt in his Autumn Statement in November. The GBP/USD pair's immediate reaction was muted, but at the very least the announcement did not halt the pair's rally.

In the third week, the pair then tumbled by -0.6% against the dollar. With US interest rates rising and the dollar strengthening, all the other G10 currencies weakened against the greenback. There was no clear reason for the dollar's rise, but the US February CPI data (released March 12) and PPI data (released March 14), probably played a role, with both price indicators remaining above market expectations. As expected, the UK's January GDP figure was up +0.2% on the previous month, thus suggesting the recession was already a thing of the past.

In the fourth week, the GBP/USD pair fell by a further -0.1%. When the BOE's Monetary Policy Committee (MPC) met on March 21, it struck a surprisingly dovish stance, with Catherine Mann and Jonathan Haskel both withdrawing their votes for a rate hike, for instance. The SNB met on the same day and it became the first G10 central bank to cut rates during this phase. With the eurozone's March composite PMI (preliminary) figure also deteriorating, fears grew about a prolonged economic slowdown, with these factors also apparently supporting the trend of global dollar bullishness.

As of March 28 in the fifth week, the pound had rallied by around +0.3% against the dollar compared to the end of the previous week. The previous week had seen BOE MPC members Catherine Mann and Jonathan Haskel both withdrawing their previous support for rate hikes to vote instead to keep the policy rate fixed at 5.25%. In subsequent interviews, though, both members emphasized that rate cuts were still some way off.

2. Outlook for This Month

When it come to the movements of the pound and other currencies, investors will continue to focus on the timing of the first FRB, ECB and BOE rate cuts together with the pace of rate cuts thereafter. The eurozone March

Harmonised Index of Consumer Prices (HICP; preliminary) will be released on Wednesday, April 3. This will be followed by the release of the March US employment data on Friday, April 5. The results of these indicators could see a shift in market expectations, but the current data suggests these indicators will probably end up supporting the dollar. There is a growing sense that the FRB will push back the timing of rate cuts on bullish US employment and economic indicators. At the same time, more observers believe other central banks like the ECB and BOE are edging closer to a monetary easing. The SNB announced a surprise rate cut when it met in March, while Sweden's Riksbank has hinted at a rate cut in May or June, with these likely to add fuel to these expectations.

However, sterling's movements will probably be supported against the euro. Comments by ECB president Christine Lagarde and other ECB officials suggest the ECB will begin cutting rates in June. On the other hand, eight members voted to keep rates fixed when the BOE met in March, with only one member voting for a rate cut, so it will probably take a while before a majority of BOE members decide the time is ripe for rate cuts. In an interview with Bloomberg on March 26, MPC member Catherine Mann explained that she had withdrawn her vote for a rate hike at the March meeting because of a change in the dynamism of the UK labor market. She said there were growing signs that more people were trying to find extra jobs to support falling living standards, but employers were reluctant to hire, with discretionary spending on services like hotels, restaurants and entertainment also shrinking. In an interview with the FT on March 28, meanwhile, Jonathan Haskel said he had ditched his support for rate hikes in part because of the better-than-expected inflation figures. However, he added that the BOE's Decision Maker Panel survey of companies suggested that wage growth was still too high, with this trend unlikely to slow until conditions loosened.

The GBP/JPY pair has become entrenched at 190 yen, its highest level since 2015. Going forward, moves by Japan will be attracting the most focus, particularly when it comes to interventions in the forex markets. On March 19, the Bank of Japan (BOJ) announced an historic policy shift when it scrapped negative interest rates and its yield curve controls (YCC), but this move actually placed more downward pressure on the yen. The markets appear to be pressing the BOJ to take further action. Despite lifting negative interest rates, though, the BOJ has maintained an accommodative policy, so most observers believe the next move by the Japanese government and the BOJ will be an intervention in the markets.

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

Australian Dollar – April 2024

Expected Ranges **Against the US$: US$0.6400–0.6680**
Against the yen: JPY96.60–100.60

1. Review of the Previous Month

The AUD/USD pair began March trading around $0.65 and then grew heavier to drop below $0.65 at the start of the month.

China's National People's Congress released its budget deficit target on March 5. The target was down compared to 2023, thus suggesting the authorities would only implement a modest stimulus package, with the Australian dollar falling as a result. The currency pair then tumbled further to hit a monthly low of $0.6477 in tandem with falling option strike prices as a large number of expiration dates loomed. The pair then strengthened from its support line. Thereafter, the US released a series of bearish indicators, including the US February Non-manufacturing ISM Report on Business, so the pair was bolstered as the greenback was sold. In his testimony to Congress on March 6, FRB chair Jerome Powell said, "if the economy evolves broadly as expected, it will likely be appropriate to begin dialing back policy restraint at some point this year." The US dollar was subsequently sold, with the currency pair climbing to $0.6581. On March 7, Mr. Powell then stated the FRB was close to being confident enough to start cutting rates, with US treasury yields then falling, particularly when it came to short-term treasuries. As the greenback was sold, the AUD/USD pair easily topped $0.66. The US February employment data was released on March 8. The nonfarm payrolls figure beat expectations, but the previous month's figure was revised down sharply and the unemployment rate also deteriorated to a 2-year high, so the currency pair temporarily hit a monthly high of $0.6667, though it then dropped back.

The pair's topside grew heavier on March 11 on rising US treasury yields, with the pair dropping below $0.66 for a time. The US February core CPI data was released on March 12. The figure was up on both a month-on-month and a year-on-year basis, with expectations for early rate cuts receding as a result. The greenback was bought on rising US interest rates, with the currency pair dipping to $0.6584. The US released some stronger-than-expected February Producer Price Index data on March 14, with stocks and bonds both stumbling as a result. The currency pair also plummeted to hit $0.6569.

As expected, the RBA board kept its policy rate fixed at 4.35% when it met on March 19. The accompanying statement reiterated that the RBA would pay close attention to the data and the economic outlook, though the phrase about how a "further increase in interest rates cannot be ruled out" was removed from the statement and replaced with a phrase about how the board was not "ruling anything in or out." This led to a growing sense that the RBA's rate-hike bias was receding. The currency pair then fell to $0.6504. As expected, the FOMC decided to keep policy rates fixed when it met on March 20. It also left its interest rate projection unchanged at three rate cuts within the year. This was read as more dovish than expected, so stocks rose across the board and US interest rates fell. The pair subsequently strengthened to $0.6587. It then climbed to $0.6634 on March 21 on the strong results of the Australian February employment data. On March 22, the RMB's reference rate was set at a lower level. The Chinese authorities had defended the RMB7.20 level for several months, but the RMB now weakened beyond this level, with the AUD/USD pair also pulled down to around $0.6530. As expectations grew that the Chinese authorities would tolerate a weaker currency amid a sluggish economic recovery, Chinese stocks fell sharply and the AUD/USD pair weakened to $0.6511. The pair jostled up and down towards the end of March on the end-of-month adjustment flow and option pins.

2. Outlook for This Month

In March, a phrase about rate cuts was removed from the statement released after the RBA's board meeting. This led to growing expectations that the RBA's rate-hike bias was receding, with the AUD/USD pair moving heavily as a result. However, the subsequently-released Australian February employment data revealed that the unemployment rate has dropped back to the 3% range, with the jobs market moving firmly. This led to concerns about faster wage growth and a revival of inflation. Australia's February monthly CPI data was released at the end of March. Market participants were expecting a slight upswing, but the figure was unchanged on the previous month at 3.4%, though the core (trimmed mean) figure rose to 3.9%, thus suggesting that inflation was on the rise again. With inflationary pressures smoldering away, it is hard to see the RBA rushing towards rate cuts, so it seems likely the RBA will continue to leave policy unchanged for now. However, the RBA board will not meet in April, with the next meeting penciled in for May 7, so the AUD/USD pair looks set to continue moving principally on the data. Nonetheless, if some economic indicators spark concerns that inflation is accelerating again, this will help to push the currency pair higher.

On the other hand, the central value of the dot plot (released at the March FOMC meeting) was unchanged on the previous meeting, with FOMC members still expecting three rate cuts in 2024, though the projection for 2025 was lowered from four to three rate cuts, with the dot plot read as dovish overall. Meanwhile, the central values of the FOMC's economic forecast revealed that members expect inflation to hit 2.4% at the end of 2024, with the federal funds rate projected to be lowered to 4.6% by the end of the year. This is still some way off the FOMC's inflation target of 2%. Nonetheless, FOMC members are still forecasting three rate cuts this year. There has been some slight unease about this inconsistency, but if the economic data shows inflation slowing in line with (or even faster than) projections, there will be moves to price in rate cuts towards July (the month when interest-rate markets currently expect rate cuts to commence), with the greenback likely to be sold at a faster pace. This will also help to push the AUD/USD pair higher.

However, the Chinese economic recovery is noticeably stalling and in March the RMB's central rate topped RMB7.20 (a line the Chinese authorities had been defending). This has led to growing sense that the Chinese authorities are prepared to tolerate RMB bearishness. With Xi Jinping also talking about buying government bonds, there is a lot of market speculation that Beijing is contemplating quantitative easing as it seeks to avoid deflation. If any new stimulus policy turns out to be less substantial than the markets are expecting, the RMB will slide further, with the Australian dollar also pulled lower, so caution will be needed.

The AUD/USD pair's downside will generally be supported in April, though investors should be wary of the pair's downside room widening sharply on the emergence of risk related to China.

Mizuho Ashizaki, Canada Office, Americas Treasury Department

Canadian Dollar – April 2024

Expected Ranges **Against the US$: C$1.3200–1.3800**
Against the yen: JPY107.00–112.00

1. Review of the Previous Month

When the Bank of Canada (BOC) met to set policy on March 6, it kept its policy rate fixed at 5.0%, as expected. The bank's stance was not as dovish as expected, so the markets reacted by buying the Canadian dollar. FRB chair Jerome Powell also gave his testimony to Congress around the same time. He said the FRB would start lowering rates at some point this year, though he did not mention any specific date, so the USD/CAD pair tumbled to the upper-C$1.34 level. The US released some lackluster new applications for unemployment insurance data and a bearish January trade balance on March 7. With Mr. Powell also stating the FRB was close to being confident that inflation was falling, the currency pair continued falling to hit the mid-C$1.34 mark. Canada's February employment data was released on March 8. At 5.8%, the unemployment rate was in line with expectations and up on the previous month's 5.7% figure. At +40,700, the number of people in work was up on expectations (20,000) and the previous month (37,300). At 4.9%, average hourly wages growth had slowed on the previous month (5.3%). The number of people in work had soared in the January US employment data, but this was now revised down sharply. At +275,000, meanwhile, the US February nonfarm payrolls figure was up on the previous month (229,000) and on expectations (200,000), while the unemployment rate stood at 3.9%, up on January's 3.7% figure, with this result pointing to a labor market slowdown. The USD/CAD pair subsequently weakened to C$1.3420.

The US January CPI data was released on March 12. At 3.2% y-o-y, the figure was up on the previous month (3.1%). The core CPI data (excluding volatile food and energy prices) was up 3.8% y-o-y, down on December's 3.9% figure but up on forecasts for 3.7%. As speculation grew that the US would begin cutting rates at a later date, the currency pair climbed to C$1.3526, though it then dropped back to the mid-C$1.34 level on rising crude oil prices. The US February Producer Price Index (PPI) data was released on March 14, with prices growing faster than expected. The US new applications for unemployment insurance data then fell, while the US retail sales figure improved after previously slipping into negative territories. As US treasury yields rose, the currency pair strengthened to C$1.3541.

Canada's February CPI data was released on March 19. At 2.8% y-o-y, the figure was down on forecasts (3.1%) and on the previous month (2.9%). The core inflation trimmed mean and median figures (two indicators closely monitored by the BOC) were both down on forecasts and the previous month, thus indicating that inflation was slowing. As market expectations grew for an early BOC rate cut, the currency pair rose to C$1.3614. The FOMC kept its policy rate fixed when it met on March 20, though it predicted rates would be cut three times in 2024. There had been rising market speculation that rates would be lowered twice within the year, so the FOMC meeting was read as dovish, with the USD/CAD subsequently plummeting to C$1.3482. On March 21, the Swiss National Bank became the first major central bank to cut rates, with this leading to a growing sense that other central banks would soon follow suit. In contrast, the US economy seemed to be moving quite firmly, so the greenback rose across the board, with the USD/CAD pair rising once again to C$1.3614.

Canada's GDP data was released at the month's end. The m-o-m and y-o-y figures were both up on expectations, with the currency pair sliding to the mid-C$1.35 level on these strong results.

2. Outlook for This Month

When the Bank of Canada (BOC) met to set policy on March 6, it continued to voice concerns about core inflation while also avoiding any mention of the timing of rate cuts. BOC governor Tiff Macklem also said there had been no major surprises in the economic indicators released after the January meeting. Canada's February CPI data suggested inflation was slowing, with inflation remaining within the BOC's target range of 1–3% for the second straight month. The number of new jobs is still failing to keep pace with demographic increases in Canada's jobs market, with supply and demand tightness easing and wage growth slowing. Canada's economy is being supported by a growing population and the firm US economy, with domestic demand (including household and government spending and capital investment) actually trending lower. Some observers have noted that demand is moving weaker than the data, as revealed by economic indicators. The markets are expecting the BOC to keep policy unchanged when it meets on April 10. The April meeting will probably announce some changes with respect to the timing of rate cuts or the outlook for the economy and interest rates. There is growing speculation that the BOC will begin cutting rates in June, but if the BOC lowers rates earlier and faster than the FRB, this could push the Canadian dollar down sharply. The minutes to the March meeting revealed that members were divided with regards to the timing of rate cuts or the risk outlook. There are concerns about the strength of the housing market, with the market particularly effervescent in spring, so the BOC remains cautious about lowering rates too early. The BOC also mentioned that it might be hard to return inflation to the 2% target given the high cost of housing. In addition to the keynote inflation rate (core CPI), the BOC will also be keeping a close eye on the supply and demand gap, corporate price movements, inflationary expectations, wages and productivity, with attention likely to focus sharply on the Business Outlook Survey on its release on April 1. Market participants should also keep a close eye on Canada's March employment data (released April 5) and March CPI data (released April 16).

As expected, the FOMC kept interest rates fixed when it met over March 19–20. Its outlook for the economy and interest rates predicted there would be three rate cuts this year. The FOMC indicated it would not lower rates until it was confident inflation was returning stably to 2%. The US economy is moving comparatively strongly, with the greenback likely to face strong upward pressure this month too.

With inflation falling for two straight months, there are strong expectations that the BOC will drop hints about rate cuts when it meets in April, with the Canadian dollar likely to be sold and the USD/CAD pair set to trade between C$1.32–1.38.

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

Korean Won – April 2024

Expected Ranges **Against the US$: KRW 1,310–1,360**
Against the yen: JPY 10.99–11.49 (KRW100)

1. Review of the Previous Month

The USD/KRW pair continued moving with a lack of direction in March. After opening the month trading at KRW1331.5, the pair moved firmly as the dollar was bought at the start of the month by importers. The pair then moved in the upper-KRW1330 range. During the evening of March 6, US interest rates fell after FRB chair Jerome Powell confirmed during his testimony to Congress that the FRB was on course to cut rates within the year. From March 7 onwards, the pair then began falling to dip below KRW1320.

The won was bought on March 11 on expectations for early US rate cuts following the release of the US employment data on March 8. The currency pair slid to a monthly low of KRW1308.0 on March 12. The US CPI data did not shift expectations for a commencement of rate cuts in June, but the currency pair was supported around its KRW1310 support line on demand for payments by importers. The US released some stronger-than-expected PPI data during the evening of March 14, with US interest rates then surging. The pair bounced back sharply on March 15 to rally to KRW1330.

With the meetings of the FOMC, the BOJ and other central banks looming, the pair moved firmly at the start of the next week on concerns about rising overseas interest rates. The pair rose to KRW1340 on March 19 after the BOJ announced it was scrapping negative interest rates. It then weakened to KRW1320 on March 21 when the FOMC meeting was read as slightly dovish. On March 22, though, the People's Bank of China set the RMB's reference rate at a lower level than expected. The RMB plummeted and the won was also dragged lower, with the USD/KRW pair rising to around KRW1340 once again.

The pair remained firm the following week, though its movements were swayed by concerns over RMB trends. This was because the won had also strengthened on RMB bullishness around the time of the RMB reference rate announcement. The greenback moved strongly on March 27, with the USD/KRW pair rising to KRW1348.3 to hit a high for the year. The pair then hit another 2024 high when it climbed to a March high of KRW1353.0 on March 28. However, this rise came to an end and the greenback was sold, with the currency pair temporarily adjusted down to the lower-KRW1340 level to close the month at KRW1346.2.

2. Outlook for This Month

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

When it met in March, the FOMC stuck to its projection for three rate cuts this year. Most observers are expecting rate cuts to commence in June, though there remain a lot of uncertainties. However, market participants still expect rate hikes to commence within the year, so US interest rates will only have limited room to rise further. As such, it is hard to see the USD/KRW continuing to renew highs.

South Korea's February export figure rose by 4.8% y-o-y to stand at around $52.4 billion, with the overall figure driven up by a +66.7% y-o-y rise in semiconductor exports. South Korea's trade balance with China also returned to the black for the first time since September 2022, for example. With exports recovering, the won will gradually see more buying on real-demand flows. Equities also remain strong as funds flow into hi-tech stocks, with this also likely to support won buying. Based on the above, it seems that the USD/KRW pair's range will edge up slightly this month, though its room on the topside will be capped and the won buying will gradually increase.

A general election will take place in April 10. The elections are being seen as a mid-term referendum on President Yoon Suk Yeol's government, with opinion polls showing a close battle between the ruling and opposition parties. It seems the elections will only have a limited impact on the pair's movements, though the situation will need monitoring.

Kazuki Hisamoto, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – April 2024

Expected Ranges	**Against the US$: NT$31.25–32.25**
	Against the yen: JPY4.55–4.80

1. Review of the Previous Month

The USD/TWD pair rose in March.

The pair opened the month trading at TWD31.600 on March 1. With US stocks hitting record highs, Taiwanese stocks were also pulled higher. As more foreign investors bought Taiwanese stocks, the currency pair fell to around TWD31.50. Taiwan released some stronger-than-expected February CPI data on March 8, so the Taiwan dollar saw even more buying pressure, with the pair dipping to TWD31.410 for a time.

The US February CPI data was released during overseas trading time on March 12 and this was also up on forecasts, so expectations for early US rate cuts faded, with US interest rates surging. As the greenback faced buying pressure, the currency pair climbed to TWD31.50. The US February PPI data was released during overseas trading time on March 14 and this also topped forecasts, so US interest rates rose at a faster pace and the greenback was bought, with the pair rising to the mid-TWD31.80 mark.

When the FOMC met during overseas trading time on March 20, it struck a dovish tone by maintaining its rate-cut outlook for 2024, so the US dollar was sold back for a time. The Central Bank of the Republic of China (Taiwan) unexpectedly implemented a rate hike on March 21, with several factors pushing the Taiwan dollar up again. However, amid growing speculation that China would implement a rate cut, the RMB was sold sharply on March 22. Other Asian currencies also moved bearishly, with the Taiwan dollar pulled lower too. Towards the month's end, overseas investors sold Taiwanese stocks for profit taking. With Taiwanese investors also sending investment funds overseas, the Taiwan dollar was pushed lower and the USD/TWD pair temporarily rose to TWD32.039. The pair then moved firmly around TWD32.00 at the month's end.

2. Outlook for This Month

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

The FOMC left its rate-cut outlook unchanged when it met in March. With the Central Bank of the Republic of China (Taiwan) also unexpectedly hiking rates, the factors were in place for US-dollar selling and Taiwan-dollar buying. However, overseas investors then sold Taiwanese stocks for profit taking, while Taiwanese investors bought overseas bond ETFs, so the fund supply and demand situation created more pressure for US-dollar buying and Taiwan-dollar selling, with the currency pair strengthening as a result.

The pair looks set to weaken in April. The FOMC is expecting three US rate cuts in 2024 and there is a growing conviction that rate cuts will begin in the middle of the year, with pressure for US-dollar buying likely to ease off soon. Taiwan will also be hiking electricity bills in April, for example, so market participants should be wary of Taiwanese interest rates rising if the CPI data or inflationary expectations rise further from here on. If this happens, the Taiwan dollar will probably see more buying pressure, with the currency pair likely to trend lower. However, if

Taiwanese investors send more investment funds overseas than expected, this could place more selling pressure on the Taiwan dollar, so caution will be needed.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – April 2024

Expected Ranges **Against the US$: HK$ 7.8000–7.8300**
Against the yen: JPY 18.90–19.50

1. Review of the Previous Month

Hong Kong dollar spot exchange market in March

HKD spot was settling at near 7.82 level after hitting its 5-month low of 7.8298 level. In March, the Fed kept its policy rate unchanged 5.25-5.50% and maintained its rate projections of 3 cuts throughout the year, despite higher inflation figures this year. Considering a likely Fed's insurance rate cut cycle, the HKD spot is unlikely to appreciate to its strong-side convertibility undertaking of 7.75 level. Instead, the HKD spot is expected to fluctuate in the weak half of trading band, as suggested by the experience of Fed's moderate rate cut cycle in 2019. Investments flows have been picking up, with the Stock Connect inflow reaching above HKD 100bn, alongside the recovery in Hang Seng Index. The removal of HK housing cooling measures stimulated the housing market turnover briefly but did not provide a boost to the lacklustre property market. Moreover, the HKD market remained clam as the HK legislation fast-tracked the Article 23 bill into a new national security law. The 1Y HKD forward points held steady at around -500 points, in contrast to a jump of around 600 points following the proposal of HK National Security Law in May 2020.

Hong Kong dollar interest rate market in March

The HKD HIBOR curve ticked up due to quarterly seasonality, with 1-month and 3-month tenor up to 4.8% and 4.7%, respectively. Other than that, HKD HIBOR curve held mostly steady in March as HKMA aggregate balance remained unchanged at around HKD 45bn in the absence of FX intervention. The 3-month was trading below 1-month tenor as the Fed reassured its rate cut view this year. The HKD IRS curve also pared back its gains following the Fed's dovish hold. The HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD HIBOR) climbed as front-end HKD HIBOR rose more significantly on the FX seasonality.

2. Outlook for This Month

Hong Kong dollar spot exchange market in April

The robust USD is expected to support the USD/HKD above 7.8 level in coming months. The dovish FOMC meeting has increased chance for Fed's rate cut in June. However, the number of total rate cuts is expected to be limited to 2-3 times, indicating the continuation of USD-HKD rate differential this year. After the quarter-end, the HKD liquidity conditions will likely ease again, leading to the return of long USD/HKD spot carry trade flow that could weigh on the HKD spot. Despite the improving China and HK growth outlook, foreign investors remained cautious on the China/HK investments and the upcoming US elections could fuel risks related to geopolitical tensions or investment restrictions. HKD loan demand is expected to remain weak given high HKD funding costs under the USD-HKD peg and subdued mortgage demand in the lacklustre HK property market.

Hong Kong dollar interest rate market in April

HKD rates are expected to come off after the quarter end. The short-term HKD rates will likely hold steady given the Fed's pushback for rate cuts and status quo of HKMA aggregate balance. In the medium term, HKD rates are expected to track lower with USD rates as the Fed maintains its rate projection of 3 cuts throughout the year. The feeble HKD loan demand and lacklustre IPO market suggested a discount in HKD rates against the USD, until the dividend flow seasonality emerges at Q2-end.

Sae Sueyoshi, Treasury Department, MHBK (China)

Chinese Yuan – April 2024

Expected Ranges **Against the US$: CNY 7.0500–7.2500**
Against the yen: JPY 20.00–21.28

1. Review of the Previous Month

In March, the U.S. dollar/Chinese yuan exchange rate exceeded the CNY 7.20 mark.

On March 1, the U.S. dollar/Chinese yuan exchange market opened trading at the lower-CNY 7.19 level. As the National People's Congress of the People's Republic of China was approaching, market participants maintained a wait-and-see attitude, and the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a narrow range of approximately 100 pips.

On March 4, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 7.19 level. On March 5, the National People's Congress of the People's Republic of China began, and a government work report revealed a plan to issue 1 trillion Chinese yuan of ultra-long, special, central government bonds. However, the major policy indices such as the GDP target turned out to be generally in line with market expectations. Thus, the market reacted to this news only to a limited extent. Thereafter, there were few new factors in the market, and the U.S. dollar/Chinese yuan exchange rate did not move significantly. Subsequently, toward the end of the week, market participants sold the U.S. dollar against other currencies. Furthermore, the U.S. employment statistics were released during the nighttime of March 8 with both strong and weak figures. As a result, the U.S. dollar/Chinese yuan exchange rate once fell to the upper-CNY 7.17 level.

On March 11, the U.S. dollar/Chinese yuan exchange market opened trading at around the CNY 7.19 level. On March 9, the February Consumer Price Index (CPI) of China was announced, recording a positive result for the first time in six months, particularly thanks to the seasonal factors related to the Chinese New Year. As Chinese stock prices rose, market participants bought the Chinese yuan dominantly, and the U.S. dollar/Chinese yuan exchange rate once reached the lower-CNY 7.17 level. However, the February CPI and the February core Producer Price Index (PPI) of the U.S. turned out to be stronger than the market estimates, and this strengthened the U.S. dollar. Meanwhile, the U.S. dollar/Chinese yuan exchange rate returned to the upper-CNY 7.19 level.

On March 18, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 7.19 level. On March 20, the Loan Prime Rate (LPR) was announced, and the interest rate was maintained at the existing level. Because this outcome had been anticipated in the market, there was no impact on the U.S. dollar/Chinese yuan exchange market. After the Federal Open Market Committee (FOMC) meeting, the U.S. dollar strengthened, mainly in the offshore market. However, in the onshore market, the U.S. dollar/Chinese yuan exchange rate did not rise further before reaching the CNY 7.20 level. Thereafter, the U.S. dollar/Chinese yuan exchange rate continued fluctuating within an extremely narrow range. On March 22, at market opening, the U.S. dollar/Chinese yuan exchange rate then rose sharply, exceeding the CNY 7.20 mark. In the evening of the same day, the U.S. dollar/Chinese yuan exchange rate once reached the CNY 7.23 level.

On March 25, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 7.21 level. After falling below the CNY 7.20 mark, the People's Bank of China (PBOC) set the central parity rate at CNY 7.0996, with a stronger Chinese yuan than the previous day. As a result, the U.S. dollar/Chinese yuan exchange rate fell rapidly by almost 200 pips just after the market opened. Thereafter, market participants started to buy the U.S. dollar again, and the U.S. dollar/Chinese yuan exchange rate returned to the mid-CNY 7.21 level. On March 26 and beyond, the PBOC continued setting its central parity rate toward an increasingly stronger Chinese yuan. Despite this situation, however, the Chinese yuan continued depreciating against the U.S. dollar gradually, and on March 28, the U.S. dollar/Chinese yuan exchange rate rose to the upper-CNY 7.22 level.

2. Outlook for This Month

In April, the U.S. dollar/Chinese yuan exchange rate is forecast to remain high throughout the month.

Since the U.S. dollar strengthened against other major currencies, the U.S. dollar/Chinese yuan exchange rate exceeded the CNY 7.20 mark, which had been a psychological turning point since the beginning of the year. However, the PBOC continues to set its central parity rate at around the CNY 7.10 level, making the CNY 7.23 level the upper end of the target fluctuation range of 2%. The outcome of the National People's Congress of the People's Republic of China was generally in line with what had been anticipated in the market, and market participants see the growth target rate of 5% as a challenging figure. The real estate sector has not recovered significantly despite the measures taken by the government. Thus, expectations are growing for economic stimulus to be created by the ultra-long, special, central government bonds. The Chinese yuan is thus not expected to appreciate based on expectations for economic recovery in China. Under such circumstances, downward pressure on the Chinese yuan and upward pressure on the U.S. dollar have been dominant based on the interest rate differentials between the U.S. and China. Yet, the U.S. dollar is not expected to appreciate further against the Chinese yuan, as there has been a gap between the exchange rate in the market and the PBOC central parity rate since August last year, which would keep the U.S. dollar/Chinese yuan exchange rate from rising further.

In the U.S., economic indices remain strong, such as the CPI. Under such circumstances, the policy interest rate was maintained at the existing level at the Federal Open Market Committee (FOMC) meeting held in March. According to the latest dot plot, there will be three policy interest rate cuts before the end of the year, as was also predicted by the previous dot plot. The Federal Reserve Board (FRB) maintains its plan to decide when to start cutting the policy interest rate depending on the economic indices. Thus, the U.S. dollar exchange market has been fluctuating in both directions in accordance with economic indices. However, there is little room for the U.S. dollar/Chinese yuan exchange rate to rise. Under such a context, market participants should be cautious about the depreciation of the U.S. dollar and the appreciation of the Chinese yuan as resulting from the weakening of economic indices.

It is also worth noting that, thanks to the recovery of the stock market, capital inflow from foreign investors is coming back to China. Furthermore, some market participants are buying the Chinese yuan based on actual demand after gaining trade surplus. These factors are considered to weaken the U.S. dollar and strengthen the Chinese yuan. Market participants should also be cautious of uncertain factors such as the presidential election in the U.S. as well as headlines related to the relationship between the U.S. and China.

With regard to the Japanese yen/Chinese yuan exchange market, the Japanese yen has been generally weakening, as can be confirmed by the fact that the U.S. dollar/Japanese yen exchange rate has reached the highest level since the 1990s. Under such circumstances, the Japanese yen/Chinese yuan exchange rate renewed its lowest level since the introduction of the managed floating exchange rate system, reaching CNY 4.7458 (with the Chinese yuan/Japanese yen exchange rate at JPY 21.071). As of the end of March, the Japanese yen/Chinese yuan exchange rate has been low. Thus, market participants should continue carefully observing trends in the Japanese yen/Chinese yuan exchange market.

Ayaka Matsumoto, Asia & Oceania Treasury Department

Singapore Dollar – April 2024

Expected Ranges	**Against the US$: SG$ 1.3300–1.3700**
	Against the yen: JPY 108.50–114.00

1. Review of the Previous Month

In March, the U.S. dollar/Singapore dollar exchange rate once fell, but at the end of the month, it returned to the level seen at the beginning of the month.

On March 1, the U.S. dollar/Singapore dollar exchange market opened trading at around the mid-SGD 1.34 level. On the same day, the February ISM manufacturing-sector business confidence index of the U.S. was announced, and on March 5, the February non-manufacturing-sector business confidence index of the U.S. was announced. Including these two, the U.S. economic indices announced at the beginning of the month all turned out to be weak, which encouraged market participants to sell the U.S. dollar. As a consequence, the U.S. dollar/Singapore dollar exchange rate fell slowly, reaching the lower-1.33 level on March 7. On March 8, the February employment statistics of the U.S. were released, and the number of non-agricultural employees turned out to be higher than the market estimate. However, the unemployment rate turned out to be worse than the market estimate. Thus, market participants sold the U.S. dollar in a more-accelerated manner. The U.S. dollar/Singapore dollar exchange rate fell and once reached the upper-SGD 1.32 level.

On March 12, the February Consumer Price Index (CPI) of the U.S. was announced, and the result turned out to be above the market estimate. In reaction, market participants started dominantly buying the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate rose to the lower-SGD 1.33 level. Furthermore, on March 14, the February Producer Price Index (PPI) of the U.S. was announced, and its result also turned out to be stronger than the market estimate. As a result, market participants confirmed the persistence of inflation in the U.S. and continued buying the U.S. dollar. The U.S. dollar/Singapore dollar exchange rate thus rose to reach the mid-SGD 1.33 level. Thereafter, there were fewer transactions in the market, as both the Federal Open Market Committee (FOMC) meeting and the Bank of Japan meeting were scheduled in the following week. The U.S. dollar/Singapore dollar exchange rate thus continued fluctuating within a narrow range at the lower-SGD 1.33 level.

On March 19, the Bank of Japan decided to end its negative interest rate policy. On the other hand, however, the Bank of Japan emphasized a conservative attitude, by stating that monetary easing would continue in the monetary market for a while, given the current economic and price outlook. As a consequence, the U.S. dollar appreciated against the Japanese yen. Market participants bought the U.S. dollar against the Japanese yen. The same trend spread to other Asian currencies. Therefore, the U.S. dollar/Singapore dollar exchange rate also rose and temporarily reached the lower-SGD 1.34 level. On March 20, the March FOMC meeting was held, attracting substantial attention in the market. However, the FOMC decided to maintain its existing monetary policy, which had been anticipated by the majority in the market, and there was little impact on the foreign exchange market.

On March 22, the Chinese yuan sharply depreciated against the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate exceeded the CNY 7.2 mark. As a result, market participants started to dominantly buy the U.S. dollar and sell Asian currencies. Following this trend, the U.S. dollar/Singapore dollar exchange rate rose to temporarily approach the SGD 1.35 level. Then, on March 25, the February CPI of Singapore turned out to be strong, encouraging market participants to buy the Singapore dollar. Thus, the U.S. dollar/Singapore dollar exchange rate fell to approach the mid-SGD 1.34 level, Thereafter, there were few new factors in the market toward the end of the month. Thus, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range at around the mid-SGD 1.34 level.

2. Outlook for This Month

In April, the U.S. dollar/Singapore dollar exchange rate is expected to be high.

In March, the U.S. dollar/Singapore dollar exchange rate fluctuated in both directions, following the release of economic indices in the U.S. and central bank events in various countries. During the previous week, the employment statistics of the U.S. had been released, revealing a deterioration of the unemployment rate. However, the number of non-agricultural employees turned out to be above the market estimate. Thus, inflation indices remain robust. The Federal Reserve Board (FRB) released a statement at its March meeting such that the employment maintained steady growth and that the inflation ratio remained high despite the slowdown seen in the past year. At the press conference held after the FOMC meeting, FRB Chair Jerome Powell did not mention the exact timing of the policy interest rate cut. It is therefore likely that the FRB will remain cautious about the timing of the policy interest rate cut until the inflation rate is under better control. For this reason, the U.S. dollar is forecast to remain strong.

On the other hand, in Singapore, the February composite CPI turned out to be +3.4% year-on-year—above the market estimate and the previous month's result. Furthermore, the February core CPI turned out to be + 3.6% year-on-year, recording the highest figure since July 2023. Singapore's Ministry of Trade & Industry and the Monetary Authority of Singapore (MAS) released a statement that the acceleration of inflation was led by the price increase in food and services partially based on seasonal factors related to the Chinese New Year. In the times ahead, the inflation rate is expected to fall gradually until the end of the year, led by a fall in food- and tourism-related services as well as decreasing pressure from import costs. Thus, they see the acceleration of inflation seen this time as a temporary phenomenon. The MAS is scheduled to hold a monetary policy meeting in April. Under the current context in which the MAS is in the process of evaluating the inflation level in Singapore, it is unlikely for its monetary policy to be modified this time.

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

Thai Baht – April 2024

Expected Ranges **Against the US$: THB 35.80–37.30**
Against the yen: JPY 4.12–4.18

1. Review of the Previous Month

In March, the U.S. dollar/Thai baht exchange rate renewed its yearly high, recording positive growth from the previous month.

In March, the U.S. dollar/Thai baht exchange market opened trading at the upper-THB 35 level, after which the exchange rate did not rise, as interest rates in the U.S. fell due to weak figures in the U.S. economic indices. The February Consumer Price Index (CPI) of Thailand recorded negative growth for the fifth consecutive month, showing signs of disinflation. However, this result was in line with the market estimate, and Prime Minister of Thailand Srettha Thavisin did not request the central bank of Thailand to cut its policy interest rate. Thus, there was little impact on the foreign exchange market. Thereafter, the semiannual congressional testimony by the Federal Reserve Board (FRB) Chair Jerome Powell ended without any commotion. On March 8, the February employment statistics of the U.S. were released, and the number of employees turned out to be strong. However, the unemployment rate rose, and the January data was revised downward, which resulted in the depreciation of the U.S. dollar in the foreign exchange market. The U.S. dollar/Thai baht exchange rate once fell to the lower-THB 35 level. However, by the end of the week, the U.S. dollar/Thai baht exchange rate returned to the mid-THB 35 level.

In the middle of the month, the Election Commission of Thailand made a request to the Constitutional Court of Thailand to dissolve the largest opposition party: the Move Forward Party. In reaction, the U.S. dollar/Thai baht exchange rate rose slightly. In the evening of the same day, the February core CPI of the U.S. turned out to be above the market estimate, which accelerated the trend, and the U.S. dollar/Thai baht exchange rate reached the upper-THB 35 level. On the following day, the U.S. dollar/Thai baht exchange rate returned to the mid-THB 35 level. However, the February Producer Price Index (PPI) turned out to be above the market estimate thereafter, while the number of new unemployment insurance claims turned out to be below the market estimate. As a result, interest rates in the U.S. rose, and market participants bought the U.S. dollar. As a result, the U.S. dollar/Thai baht exchange rate remained stable again at the upper-THB 35 level. After the Bank of Japan meeting, the U.S. dollar/Japanese yen exchange rate rose. Following this trend, the U.S. dollar/Thai baht exchange rate rose to reach the lower-THB 36 level. However, the Federal Open Market Committee (FOMC) held a meeting thereafter and decided to maintain its policy interest rate at the existing level, which had been anticipated in the market. Furthermore, the number of policy interest rate cuts expected before the end of the year also remained unchanged, at three. Thus, the U.S. dollar/Thai baht exchange rate fell to a level around THB 36, offsetting the appreciation of the U.S. dollar seen after the Bank of Japan meeting.

At the end of the month, the governor of the central bank of Switzerland decided to cut Switzerland's policy interest rate, which had not been anticipated in the market. Furthermore, the U.S. dollar/Chinese yuan exchange rate rose due to a fall in Chinese stock prices, and the Chinse yuan fell below the psychological turning point. In reaction, the U.S. dollar/Thai baht rose to the mid-THB 36 level. Thereafter, market participants gradually started to adjust their positions, as it was at the end of the month as well as the end of the quarter period, with the Easter holidays approaching. Thus, the U.S. dollar/Thai baht exchange rate fluctuated mainly at the lower-THB 36 level. However, the U.S. dollar appreciated against the overall Asian currencies thereafter. Following this trend, the U.S. dollar/Thai baht exchange rate renewed its yearly high on two consecutive days: March 27 and 28. Thereafter, the U.S. dollar/Thai baht exchange rate remained stable at the mid-THB 36 level.

2. Outlook for This Month

In April, the U.S. dollar/Thai baht exchange rate is forecast to remain high and continue rising. At the FOMC meeting, the FRB did not take a hawkish attitude. However, the U.S. dollar appreciated against other major currencies based on relative factors, as the Bank of Japan decided to maintain measures of monetary easing even after ending its negative interest rate policy, the central bank of Switzerland decided to be the first country in the G10 to cut the policy interest rate, and the central bank of England remained dovish. This situation is likely to persist in April. Given that it is unlikely for the economic situation and the monetary policy in Thailand to change, the U.S. dollar/Thai baht exchange market is forecast to follow the same trend as in March.

The central bank of Thailand is scheduled to hold a monetary policy committee (MPC) meeting on April 10. Recently, an estimate from a major Thai bank was announced, predicting that the central bank of Thailand would cut the policy interest rate by 50 basis points in the April–June quarter period. Based on the meeting schedule of the central bank of Thailand's MPC, there will be only two MPC meetings during the second quarter in 2024, in April and June. Thus, according to this estimate, the central bank of Thailand will cut the policy interest rate at two consecutive sessions. However, according to the central bank of Thailand, the current trend of disinflation is temporary, and the headline inflation rate is expected to start rising in the second quarter after the end of the energy price subsidy provided by the Thai government.

Furthermore, although it is still very uncertain, the ruling party, the For Thais Party, has pledged to offer a benefit of THB 10,000, which would not be easily withdrawn. Such a measure will be a factor for inflation, making it difficult for the central bank to start cutting its policy interest rate in the second quarter.

The current Thai economy faces the problem of a deteriorating number of new orders especially in the manufacturing industry. The situation is particularly difficult in Thailand compared to its neighboring countries. For example, the situation is much severer in Thailand compared to Vietnam—a country highly dependent on imports, like Thailand. Because domestic demand is also weak in Thailand, the central bank of Thailand cannot take further action, even if the Thai economy remains weak. This situation is expected to weaken the Thai baht.

After the MPC meeting at the central bank of Thailand, unless the U.S. economic indices turn out to be extremely weak or Chinese economic indices turn out to be strong, the U.S. dollar/Thai baht exchange rate is forecast to fluctuate within a narrow range mainly at the THB 36 level—the highest level since the beginning of the year—reacting to each economic index. Therefore, the U.S. dollar/Thai baht exchange rate is forecast to remain high in April.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – April 2024

Expected Ranges **Against the US$: MYR 4.70–4.80**
Against the yen: JPY 31.25–32.26

1. Review of the Previous Month

In March, the U.S. dollar/Malaysian ringgit exchange rate fell at the beginning of the month, as market participants actively bought the Malaysian ringgit, as was also the case in February. On the other hand, from the middle to the end of the month, the U.S. dollar appreciated against the Malaysian ringgit as inflation indices rose in the U.S.

Since the previous month, market participants continued dominantly buying the Malaysian ringgit. Thus, at the beginning of the month, the U.S. dollar/Malaysian ringgit exchange rate once fell to the lower-MYR 4.67 level, falling below the MYR 4.70 level for the first time in approximately two months. On March 6, Federal Reserve Board (FRB) Chair Jerome Powell gave a congressional testimony. Even though the content of the testimony was generally in line with what had been anticipated in the market, the U.S. dollar depreciated thereafter, with weakening speculation of further delays in the policy interest rate cut. Following this trend, the U.S. dollar/Malaysian ringgit exchange rate fell below the MYR 4.70 level. On March 7, the central bank of Malaysia held a monetary policy meeting, and the policy interest rate was maintained at the existing level of 3.0%, which had been anticipated in the market. On the other hand, the governor of the central bank of Malaysia, Abdul Rasheed Ghaffour, mentioned the depreciation of the Malaysian ringgit again, which reassured market participants buying the Malaysian ringgit.

In the middle of the month, the U.S. dollar appreciated based on the rise in price indices in the U.S., and the U.S. dollar/Malaysian ringgit exchange rate returned to the MYR 4.7 level. On March 8, the employment statistics of the U.S. were released with a stronger headline than anticipated. However, the figures of the previous data were revised downward, and the unemployment rate rose, which later encouraged market participants to sell the U.S. dollar. After the weekend, the Malaysian ringgit strengthened, and the U.S. dollar/Malaysian ringgit exchange rate fluctuated at around the MYR 4.68 level on March 11. On March 12, the industrial production numbers of Malaysia recorded positive growth of 4.3%, substantially above the market estimate. Furthermore, on the same day local time in New York, the Consumer Price Index (CPI) of the U.S. was announced, and the result turned out to be +3.2% year-on-year, demonstrating accelerated inflation. Since there were both strong and weak figures in the economic indices, market participants maintained a wait-and-see attitude. On March 13, however, the Producer Price Index (PPI) of the U.S. was announced, recording a slight rise, as was the case with the CPI. Because this was the second economic data to confirm inflation, market participants expected the policy interest rate cut to be postponed. As a result, the U.S. dollar appreciated.

At the end of the month, market participants were impatiently waiting for the outcome of the Federal Open Market Committee (FOMC) meeting held on March 21. On March 18, the February trade statistics were released, revealing negative growth in exports, at -0.8%. Market participants grew pessimistic about the economic outlook of Malaysia, as there was a large decline in electrical & electronics exports, as well as in petroleum-product exports, both of which are main sectors for Malaysia. As a consequence, the Malaysian ringgit depreciated. Furthermore, in the early morning of March 21, the FOMC announced its interest rate outlook without any modification to the number of policy interest rate cuts expected before the end of the year. Thus, the U.S. dollar/Malaysian ringgit exchange rate fell once below the MYR 4.70 level. However, market participants bought back the Malaysian ringgit only for a short time. As housing indices in the U.S. turned out to be strong, market participants started to actively buy the U.S. dollar, and the U.S. dollar/Malaysian ringgit exchange rate returned to the MYR 4.74 level again. Thus, the U.S. dollar/Malaysian ringgit exchange market remained unstable.

2. Outlook for This Month

In April, the Malaysian ringgit is forecast to weaken.

On March 21, the FOMC released a dot plot, expecting three policy interest rate cuts before the end of the year, which was the same as the previous estimate, as was mentioned above. At first, market participants considered this a dovish perspective and sold the U.S. dollar. However, this trend did not last for a long time, and the U.S. dollar rallied thereafter. The price indices announced last month suggested the possibility of a delay in the fall of prices, and the market reflected the possible decrease in the number of policy interest rate cuts in the U.S. expected before the end of the year.

In Malaysia, the trade statistics revealed negative growth in exports. As there has been no optimistic data, it is difficult for market participants to actively buy the Malaysian ringgit. The only positive factor for the Malaysian ringgit is the statement by the Malaysian government to encourage exporting companies and government-run companies to buy the Malaysian ringgit. However, any one-sided depreciation of the Malaysian ringgit based on Malaysian ringgit-buying transactions encouraged by the government is likely to be limited.

It is, however, worth noting that major countries are shifting toward policy interest rate cuts, such as the central bank of Switzerland, which started cutting its policy interest rate on March 21, as well as the European Central Bank (ECB), the high officials of which are reported to be increasingly certain about a slowdown in wage growth.

For this reason, there is no domestic factor to encourage market participants to actively buy the Malaysian ringgit. Under such circumstances, the U.S. dollar/Malaysian ringgit exchange rate is expected to fluctuate following the trends in the U.S. dollar exchange market. Therefore, in April, the U.S. dollar/Malaysian ringgit exchange rate is forecast to remain unstable, fluctuating in both directions, while seeking the upper end of the fluctuating range.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – April 2024

Expected Ranges	**Against the US$: IDR 15,500–15,950**
	Against the yen: JPY 0.9434–0.9756 (IDR 100)

1. Review of the Previous Month

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

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the lower-IDR 15,700 level on March 1. The February Consumer Price Index (CPI) of Indonesia was announced, and the result turned out to be above the market estimate. However, it was within the target range set out by the central bank of Indonesia. Thus, market participants reacted to this news only to a limited degree. Toward March 5, in the following week, the Indonesian rupiah depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 15,700 level. However, the economic indices in the U.S. turned out to be below the market estimate thereafter, which inversed the trend, and the U.S. dollar depreciated. As a result, the Indonesian rupiah rallied, and the U.S. dollar/Indonesian rupiah reached the mid-IDR 15,500 level toward March 8. On March 13, after consecutive holidays, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at the same level. However, on March 14 local time in the U.S., the February Producer Price Index (PPI) of the U.S. was announced, and the result was above the market estimate, which encouraged market participants to actively buy the U.S. dollar. Consequently, the Indonesian rupiah started to depreciate again. Market participants continued buying the U.S. dollar, waiting for the Federal Open Market Committee (FOMC) meeting scheduled for March 20 local time in the U.S., in the following week. Thus, the Indonesian rupiah weakened, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 15,700 level. On March 20, the central bank of Indonesia held a monetary policy meeting and decided to maintain the policy interest rate at the existing level, which had been anticipated in the market. The governor of the central bank of Indonesia, Perry Warjiyo, made a remark to emphasize that there was a possibility to change the monetary policy in the second half of the year. However, there was little reaction in the market. On the same day local time in the U.S., the outcome of the FOMC meeting was announced, and the policy interest rate was maintained at the existing level, as had been anticipated in the market. On the other hand, the press conference of Federal Reserve Board (FRB) Chair Jerome Powell was seen as dovish, encouraging market participants to sell the U.S. dollar. On March 21, the following day local time in Asia, the U.S. dollar weakened at market opening, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 15,600 level. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating in both directions at the mid-IDR 15,600 level. In the morning of March 22 local time in Asia, the Chinese yuan depreciated sharply against the U.S. dollar. Following this trend, the U.S. dollar strengthened against the overall Asian currencies. Thus, the Indonesian rupiah also depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 15,700 level. Toward the following week, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at the upper-IDR 15,700 level. However, toward the end of the month, pressure to sell the Indonesian rupiah strengthened based on actual demand. As a result, the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 15,800 level on March 27, reaching the yearly high for the Indonesian rupiah. The U.S. dollar/Indonesian rupiah exchange market closed trading of March at this level.

2. Outlook for This Month

In April, the Indonesian rupiah is expected to remain stable.

The central bank of Indonesia decided to maintain its policy interest rate at the existing level at its monetary policy meeting held in March. At the press conference after the meeting, the governor of the central bank of Indonesia, Perry Warjiyo, suggested a policy interest rate cut in the second half of the year. The CPI of Indonesia has not been falling, due to the rise of rice prices. However, the core CPI remains on a downward trend, which is possibly a sign of declining appetite for consumption in the domestic market. As the core CPI is approaching +1.5%—the lower end of the inflation target range—the central bank of Indonesia is probably willing to cut its policy interest rate. However, if the policy interest rate is cut before the U.S. does the same, it would lead to the depreciation of the Indonesian rupiah, which is keeping the central bank cautious about its decision.

The central bank of Indonesia is likely to start cutting its policy interest rate after the U.S. has started cutting its policy interest rate. Thus, the monetary policy of Indonesia is expected to remain dependent on the monetary policy of the U.S.

In the U.S., on the other hand, the FOMC decided to maintain its policy interest rate at the existing level at its meeting held in March, and the dot plot predicted three policy interest rate cuts before the end of the year. After the FOMC meeting, FRB Chair Jerome Powell suggested the start of policy interest rate cuts before the end of the year, while also mentioning the plan to reduce the balance sheet. This was seen as a dovish statement in the market.

In reaction to the outcome of the FOMC meeting, the Indonesian rupiah appreciated against the U.S. dollar. However, the Chinese yuan depreciated thereafter, which changed the trend in the market. As a result, the Indonesian rupiah depreciated, reaching its yearly low against the U.S. dollar. The Chinese yuan market has been stabilizing, thanks to a media report that a state-run bank had bought Chinese yuan. Market participants should remain careful about the possibility for the U.S. dollar to be sold again.

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

Philippine Peso – April 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 March, market participants sold the U.S. dollar, as the January personal consumption expenditure deflator of the U.S. turned out to be as expected, reassuring market participants, while the U.S. labor market declined, leading to lower interest rates in the U.S. Furthermore, the February Purchasing Managers' Index (PMI) for the manufacturing industry of the Philippines turned out to be 51, which supported the Philippine peso. As a result, the Philippine peso started to appreciate against the U.S. dollar at the beginning of the month. On March 5, the February Consumer Price Index (CPI) of the Philippines was announced, and the result turned out to be +3.4% year-on-year, exceeding +3.0%, the market estimate, which weakened the Philippine peso temporarily. However, on March 6, the following day, the governor of the central bank of the Philippines, Eli Remolona, made a remark that he would not change the monetary policy immediately, as it would be too early to judge that inflation remains stably within the target range. Thanks to this remark, the Philippine peso remained strong. Thereafter, the congressional testimony of Federal Reserve Board (FRB) Chair Jerome Powell turned out to be dovish, making it likely for the FRB to start cutting its policy interest rate in June. Furthermore, the January trade statistic of the Philippines revealed a trade deficit falling below the market estimate. As a consequence, the Philippine peso renewed its yearly high against the U.S. dollar on March 11, recording appreciation for the eighth consecutive day. However, the U.S. inflation indices recorded a rise, making it less likely for the U.S. policy interest rate to be cut any time soon. Thus, the U.S. dollar rallied, and the Philippine peso started to depreciate. However, the Philippine peso remained generally strong during the first half of the month, appreciating from PHP 56.200 against the U.S. dollar observed at the end of February to the mid-PHP 55 level.

In the second half of the month, the January amount of overseas Filipino workers remittances turned out to be +2.7% year-on-year, falling below +2.8%—the market estimate. Furthermore, market participants remained cautious about the outcome of the Federal Open Market Committee (FOMC) meeting, and interest rates continued rising in the U.S., strengthening the U.S. dollar. This resulted in the continued depreciation of the Philippine peso. Thereafter, the Bank of Japan held a monetary policy meeting and decided to end its negative interest rate policy. However, it announced a plan to continue measures of monetary easing for a while, which made it less likely for Japanese yen interest rates to rise in the times ahead. As a consequence, the Japanese yen depreciated against the U.S. dollar, following which other Asian currencies also depreciated against the U.S. dollar. On March 20, the U.S. dollar/Philippine peso exchange rate reached the PHP 56 level—the lowest exchange rate of the Philippine peso since the end of February—recording a fall for the sixth consecutive day. According to the monetary policy outlook by FOMC members, three policy interest rate cuts were still expected by the end of 2024. Thus, the outcome of the FOMC meeting turned out to be generally dovish, weakening the U.S. dollar against other currencies. Following this trend, the Philippine peso rallied against the U.S. dollar for the first time in seven days. However, market participants continued buying the U.S. dollar thereafter, thanks to strong figures in the U.S. economic indices. Thus, the Philippine peso remained weak, and the U.S. dollar/Philippine peso exchange market closed trading in March with a Philippine peso almost returning to the level seen at the end of the last month, weaker by PHP 0.040.

2. Outlook for This Month

The strength of the U.S. labor market and the persistence of inflation pressure have been confirmed by the U.S. economic indices recently released. However, the middle point of the policy interest rate outlook by the members of the FOMC remained at three policy interest rate cuts before the end of the year. Thus, the FOMC turned out to be generally dovish. As a result, the appreciation of the U.S. dollar slowed down. Expectations for excessively early policy interest rate cuts have already receded, and the market has reflected about three policy interest rate cuts before the end of the year, in line with the policy interest rate outlook by the monetary authorities in the U.S. For this reason, interest rates in the U.S. are not likely to rise significantly above the current level. On the other hand, the U.S. economic environment has been stable, making it likely to see a soft-landing. Since concerns persist surrounding the pressure of price and wage increases, there is no urgency for the monetary authorities of the U.S. to take actions of monetary easing. Therefore, the policy interest rate is likely to remain at the existing level without being raised or cut for the time being. Thus, interest rates in the U.S. are not likely to move in any direction in the coming month.

The central bank of the Philippines remains cautious about the inflation risk caused by the El Nino phenomenon. Furthermore, regarding the timing at which to start cutting the policy interest rate, the governor of the central bank of the Philippines, Eli Remolona, made a remark that it was not necessary to wait for the policy interest rate cuts in the U.S. However, it is unlikely for the central bank of the Philippines to shift its monetary policy by cutting the policy interest rate before the FRB. The central bank of the Philippines is therefore expected to maintain measures of monetary tightening. Thus, in terms of interest rate differentials, both the U.S. and the Philippines are likely to maintain their respective policy interest rates at the existing level. Under such circumstances, the U.S. dollar/Philippine peso exchange rate is unlikely to move in any one direction. Thus, factors related to the U.S. dollar are likely to lead the U.S. dollar/Philippine peso exchange market. As has been the case so far, the U.S. dollar/Philippine peso exchange rate is expected to remain volatile, fluctuating in accordance with optimism and pessimism regarding the timing of policy interest rate cuts in the U.S. based on the U.S. inflation and labor indices. Yet, the U.S. dollar/Philippine peso exchange rate is most likely to fluctuate within a narrow range, at around the PHP 56 level. The upper end of the fluctuation of the U.S. dollar/Philippine peso exchange rate is likely to be around the PHP 57 level—the line of defense used by the Philippine monetary authorities last year—while the lower end is likely to be around the PHP 55 level, which was seen last year when the market rapidly reflected expectations for policy interest rate cuts in the U.S.

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

Indian Rupee – April 2024

Expected Ranges **Against the US$: INR 82.90–83.60**
Against the yen: JPY 1.77–1.86

1. Review of the Previous Month

In March, the U.S. dollar/Indian rupee exchange rate exceeded the INR 83 mark once again.

In March, the U.S. dollar/Indian rupee exchange market opened trading at the upper-INR 82 level. At the beginning of the month, the U.S. dollar/Indian rupee exchange remained generally high, as the Reserve Bank of India (RBI) actively supported the exchange rate from falling by intervening in the foreign exchange market, buying the U.S. dollar and selling the Indian rupee. Toward the middle of the month, the Indian rupee depreciated gradually based on market transactions. However, the U.S. dollar/Indian rupee exchange rate did not exceed the INR 83 mark. Toward the end of the month, pressure to buy the U.S. dollar grew, and there were some large-scale transactions in the market, which led the U.S. dollar/Indian rupee exchange rate to exceed the INR 83 mark. Thereafter, the Indian rupee continue depreciating, and the U.S. dollar/Indian rupee exchange rate continued rising. In the end, the U.S. dollar/Indian rupee exchange market closed trading of March at the upper-IDR 83.30 level (as of March 27).

The BSE SENSEX remained on an uptrend and renewed its yearly high, thanks to the strong October–December quarter GDP of India announced in February. Thereafter, market participants sold Indian stocks to take profit and adjusted their positions. The BSE SENSEX thus returned to the 72,000 level, although remaining high. Toward the end of the month, the BSE SENSEX started to rally, again approaching its yearly high. Investment inflows from foreign investors into the Indian stock market recorded a substantial increase in net buys, which strengthened the BSE SENSEX again.

In terms of Indian economic indices, there were both strong and weak figures in the February manufacturing industry and service industry PMI. The February Consumer Price Index (CPI) turned out to be +5.09% year-on-year, with a slight decline from +5.10%, the previous month's result, stably remaining below 6%—the upper end of the inflation target range. The February trade balance recorded an increase in trade deficit. With its persistent trade deficit, the Indian rupee remains a currency that is likely to be sold in the foreign exchange market.

2. Outlook for This Month

In April, the U.S. dollar/Indian rupee exchange rate is forecast to remain high, exceeding the INR 83 mark.

In April, the U.S. dollar/Indian rupee exchange rate is forecast to remain high, exceeding the INR 83 mark. In March, the U.S. dollar/Indian rupee exchange rate continued fluctuating below the INR 83 mark. However, the excessive appreciation of the Indian rupee was controlled due to the market interventions by the RBI carried out when the U.S. dollar/Indian rupee exchange rate was low. Meanwhile, there was pressure to buy the U.S. dollar. Thus, the Indian rupee started to depreciate against the U.S. dollar again. Market participants should remain cautious about large-scale transactions in the market. However, the RBI continues to keep the U.S. dollar/Indian rupee exchange rate from falling significantly. Under such circumstances, the U.S. dollar/Indian rupee exchange rate is likely to remain generally stable. Based on the persistent trend of U.S. dollar appreciation, the U.S. dollar/Indian rupee exchange rate is expected to remain high, fluctuating within a narrow range between INR 83 and INR 84.

The February CPI recorded a slight decline from the previous result. At a monetary policy committee (MPC) meeting, the policy interest rate was maintained at the existing level. However, this was not a unanimous decision, as was the case last time, and there were votes for a policy interest rate cut for the first time. As the governor of the Reserve Bank of India, Shaktikanta Das, described the current situation as the last mile toward disinflation, market participants should stay attentive of how the inflation rate will reach the target rate at +4.0%, while keeping in mind that the policy interest rate in India could be cut in the second half of the year.

In March, investment inflows into the stock market and the bond market in India accelerated further, which is an important factor to keep the U.S. dollar/Indian rupee exchange rate from rising. The Indian rupee is expected to strengthen in the second half of the year, as the U.S. economy is slowing down, and the Federal Reserve Board (FRB) is likely to start cutting its policy interest rate in the U.S. However, under the current conditions, market participants are not selling the U.S. dollar as much as expected, and the Indian rupee is weakening again because of the foreign exchange market interventions by the RBI, as well as because of persistent outflow (Indian rupee-selling) based on actual demand. Because it is possible for India and the U.S. to start cutting their respective policy interest rates at around the same period, the U.S. dollar/Indian rupee exchange rate could become temporarily volatile from the middle to the second half of the year.

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