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Mizuho Dealer's Eye

May 2024

Mizuho Bank, Ltd.

Global Markets Sales & Trading Department

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U.S. Dollar – May 2024

Expected Ranges **Against the yen: JPY152.00–162.00**

1. Review of the Previous Month

Speculation about the timing and number of FRB rate cuts waned in April on the strong results of the US March employment data and March CPI figures. As US interest rates rose, the dollar/yen pair hit 160 yen for a time. With the Japanese authorities then apparently intervening to sell the dollar and buy the yen, the pair closed the month trading in the upper-157 range.

(Week 1) After opening the month at 151.40 yen, the pair temporarily climbed to just under 152 yen as US interest rates rose on the upswing in the US March Manufacturing ISM Report on Business (released April 1) and the March ADP National Employment Report (released April 3). However, it then dropped below 151 yen on the bearish results of the March Non-manufacturing ISM Report on Business, with the pair also pushed lower on risk aversion due to rising tensions in the Middle East. With the US March employment data substantially beating expectations, though, the pair rallied to the upper-151 yen mark.

(Week 2) The pair moved with a heavy topside at just under 152 yen over April 8–9 on concerns of an intervention. However, it surged to the mid-152 yen level on April 10 as expectations for FRB rate cuts waned when the US March CPI data topped market expectations. The pair then topped the key 153 yen mark towards the close of trading during NY time. The pair dipped to the upper-152 yen level over April 11–12 on concerns about the Middle East and verbal interventions to curb the yen's slide, but the pair's room on the downside was capped and it rallied slightly to the lower-153 yen level at the week's end.

(Week 3) The pair's topside touched the mid-154 yen mark on April 15 on the strong results of the US March retail sales data. US interest rates continued rising on April 16 on hawkish comments by several FRB officials, with the pair climbing to the upper-154 yen range, though its topside was held down just below the key 155 yen barrier. After meeting over April 17–18, the finance ministers of the US and South Korea expressed strong concerns about yen and won bearishness, so the dollar/yen pair's topside was held down by concerns of an intervention. Geopolitical risk related to the Middle East flared up again on April 19, with the currency pair moving in the mid-153 yen range for a time, though it was then bought back.

(Week 4) The pair moved in a range around 154 yen over April 22–23. US interest rates continued rising over April 24–25 on the weak results of an auction of 5-year treasuries, with the pair subsequently topping 155 yen. This momentum continued and the pair remained in the upper-155 yen range as investors focused on the firmness of demand in the US 1Q GDP data and steady inflation. The yen was sold at a faster pace and the currency pair hit 156 yen on April 26 after the Bank of Japan (BOJ) kept monetary policy fixed. BOJ governor Kazuo Ueda also maintained that monetary policy would remain accommodative in his press conference after the BOJ's meeting, with the pair's topside then hitting 158 yen towards NY trading time. Liquidity was thin on April 29 due to a Japanese holiday. The pair temporarily jumped to 160.24 yen, but it then plummeted to the mid-154 yen mark on an apparent intervention by the authorities. The pair was then bought on the dip, though its topside was capped by fears of an intervention. The pair moved in the 156 yen range during Tokyo trading time on April 30. With US interest rates rising, the pair then closed NY trading time at the upper-157 yen level.

2. Outlook for This Month

The dollar/yen pair is expected to climb in May.

Turning to US monetary policy first, and the US released a series of firm inflation and employment indicators last month. In the wake of this, FRB chair Jerome Powell and many other FRB officials have said the recent data suggests inflation may take longer than originally expected to return to target, with the markets now pricing in less than two rate cuts this year. If disinflation does not occur, the markets may focus on the comment by NY FRB President John C. Williams that "if the data are telling us that we would need higher interest rates to achieve our goals, then we would obviously want to do that." Crude oil prices are rising and services inflation remains strong, so this possibility cannot be ruled out.

As for Japanese monetary policy, the BOJ broadly kept monetary policy fixed when it met in April, with the central bank giving no signs it was heading towards quantitative tightening. BOJ governor Kazuo Ueda has said the bank will discuss rate hikes if inflation seems more likely to hit the 2% target. In the inflation outlook in the BOJ's Outlook for Economic Activity and Prices, the FY24 and FY25 outlook for core inflation was unchanged on January, with the weighted median also moving below 2%, so there is unlikely to be any speculation about another rate hike in the near future.

There will also be concerns over an intervention by the Japanese authorities when the currency pair rises. When the pair's topside is tested, it might move heavily just below levels that market participants believe might prompt an intervention (the 160 yen level, etc.), but it seems the yen will continue to be sold for carry trades by speculators and so on, mainly on the back of Japanese/US interest-rate differentials, so the current trend is unlikely to shift sharply.

One final factor is Middle Eastern geopolitical risk related to the tensions between Iran and Israel. Though reports point to ongoing skirmishes, it seems both countries are eager to avoid further conflict. If it seems the situation in the Middle East is deteriorating, then yen could be bought on risk aversion, with the dollar/yen pair falling for a time. In the medium term, though, there will be a number of factors pushing the pair higher, with US inflation risk flaring up again and Japan's trade balance worsening on the rising price of crude oil and other commodities, for example.

Dealers' Market Forecast

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

Bullish on the dollar	13 bulls	161.00 – 153.00	Bearish on the dollar	2 bears	158.25 – 148.75

* Ranges are central values

Miyachi	Bear	158.50 – 149.50	The dollar/yen pair's topside will be held down by accumulated speculative yen short positions and concerns of an intervention by the Japanese authorities. There is also growing speculation that economic sentiments are losing steam in the US, with May likely to be a month of adjustment for the currency pair.
Kawai	Bull	160.00 – 153.00	The dollar/yen pair moved erratically at the end of April. The pair may plummet at times on concerns about an intervention or by an actual intervention, but there are ongoing expectations that the timing and pace of US rate cuts will be slowed on concerns about stubborn inflation, with the pair also likely to move firmly on deep-rooted dollar-buying demand by real-demand investors.
Kawabata	Bull	161.00 – 154.00	The yen fell at a faster pace after the BOJ's April meeting. The yen will remain bearish on the FRB's tone and sharply receding expectations for rate cuts. However, if the pair tops the lower-160 yen mark seen at the end of April, it could hit levels not seen since before the Plaza Accord was signed, so the pair will probably move flatly while making some small adjustments.
Kato	Bear	158.00 – 148.00	Clouds have yet to appear over the US economy, so it is hard to see the dollar/yen pair reversing track. However, the yen is currently undergoing a one-sided slide, so the authorities will probably try to fulfil their duties by taking some moves to slow this slide.
Yamazaki	Bull	161.00 – 152.00	The yen is likely to continue trending lower. The situation remains unchanged and there has apparently been some interventions, but the dollar/yen pair looks set to continue rising until some fundamental issues are resolved. Investors should watch out for comments by the authorities, for example.
Yamaguchi	Bull	158.00 – 153.00	US interest rates have risen on waning expectations for US rate cuts, but yen interest rates remain at lows. With Japanese/US interest-rate differentials remaining wide, the dollar/yen pair looks set to move firmly. The yen will continue to be bought during phases of risk aversion, so caution will be needed.
Tagawa	Bull	161.00 – 152.00	Amid a dearth of macroeconomic yen-buying factors, the dollar/yen pair rose on the FOMC meeting and the employment data. However, the pair's topside will probably be capped at 160 yen by interventions by the Japanese authorities. If there are no interventions, the pair could target 165 yen.
Matsunaga	Bull	158.50 – 152.50	There are concerns that goods inflation might accelerate on rising crude oil prices, so it is hard to see the FRB moving haphazardly to cut rates. With the BOJ continuing to take a prudent stance towards monetary tightening, the dollar/yen pair will remain firm.
Katoono	Bull	161.50 – 153.50	The FRB still seems some way off relaxing its stance. With commodity prices also remaining at highs, the yen will continue to be sold on the supply and demand situation. The pair is expected to trade while steadily overstepping any short-term fluctuations caused by interventions.
Okuma	Bull	159.00 – 152.00	The yen rose sharply after the dollar/yen pair hit 160 yen, but fundamentals like Japanese/US interest-rate differentials and Japan's trade deficit remain unchanged, so the yen will continue to trend lower. The FRB is likely to remain in hawkish mode on waning expectations for US rate cuts, with the currency pair set to move firmly.
Han	Bull	160.30 – 153.50	Expectations for US rate cuts are waning on the firmness of the economy. At the same time, the yen will probably be sold on Japanese/US monetary policy differentials and ongoing BOJ easing. Investors will continue to test the dollar/yen pair's topside, but there will also be concerns over an intervention just below 160 yen.

Ito (Motoi)	Bull	163.00 – 153.00	The dollar/yen pair will continue to trend higher whether there is an intervention or not. The BOJ continues to rule out further rate hikes, so the pair will continue to rise unless clouds appear over the US economy or inflationary pressures ease off sharply.
Suzuki	Bull	162.00 – 153.00	Investors should monitor the FOMC meeting and the April US employment data, but expectations for rate cuts continue to wane, with the dollar/yen pair likely to remain bullish on the whole. Even if the authorities carry out an intervention, its impact will be short-lived, with the yen likely to be sold and the pair set to move firmly on the divergent monetary policies.
Nishi	Bull	159.00 – 153.00	Any interventions to curb the yen's slide will only have a temporary effect. Expectations for US rate cuts are waning on the strength of the US economy. The dollar/yen pair looks set to edge higher on Japanese/US interest-rate differentials. The pair's topside will be capped by concerns over an intervention just below 160 yen.
Matsuki	Bull	162.00 – 152.00	There are concerns over an intervention by the Japanese authorities, but the BOJ is expected to keep monetary policy accommodative for now, with the dollar/yen pair also likely to move firmly on waning expectations about the timing and pace of US rate cuts.

Yuuka Omi, Forex Sales, Global Markets Sales & Trading Department

Euro – May 2024

Expected Ranges **Against the US$: US$1.0500–1.0800**
Against the yen: JPY165.00–170.00

1. Review of the Previous Month

The euro/dollar pair opened the month trading at $1.0793 on April 1. It then dropped to the lower-$1.07 mark on the firm results of the US March Manufacturing ISM Report on Business. This downward trend continued on April 2, with the pair temporarily hitting a weekly low of $1.0725, though it then bounced back to the upper-$1.07 level on the mixed results of some US economic indicators. The pair strengthened to the lower-$1.08 range on April 3 when a speech by FRB chair Jerome Powell turned out to be not as hawkish as expected. Investors chased the topside and the pair hit a weekly high of $1.0876 on April 4 on some weak US indicators, though it then dropped back to the lower-$1.08 range as risk aversion grew on rising tensions in the Middle East. The greenback was bought on April 5 on the firm results of the US March employment data, with the pair dropping below $1.08 for a time, though it had returned to the lower-$1.08 level by close of trade.

The pair opened the next week at $1.0828 on April 8. It then rallied to the mid-$1.08 mark on firm European stock movements and rising German interest rates. The dollar was sold on falling US interest rates on April 9, with the pair temporarily hitting a weekly high of $1.0885, though it dropped back to the mid-$1.08 range as European stocks moved bearishly and German interest rates fell. The pair plummeted to the lower-$1.07 level on April 10 as US interest rates surged on the firm results of the US March CPI data. The ECB Governing Council struck a generally dovish tone when it met on April 11 when it dropped hints about a rate cut in June, for example, so German interest rates fell and the currency pair weakened to $1.0699 for a time. The pair was pushed down by dollar buying on April 12 to close in the lower-$1.06 range.

The pair opened the following week at $1.0647 on April 15. It initially rose, though it then tumbled to the lower-$1.06 mark on the firm results of the US March retail sales data. This downward trend continued on April 16, with the pair weakening to around $1.06, though it bounced back to the mid-$1.06 level when the April German ZEW Indicator of Economic Sentiment topped expectations. The pair was then weighed down by rising US interest rates and it temporarily hit a weekly low of $1.0601. German interest rates fell on April 17, but the dollar was sold on sliding US interest rates, so the pair climbed to the upper-$1.06 range. It temporarily hit a weekly high of $1.0690 on April 18 as US interest rates continued falling, though it dropped back to the mid-$1.06 level as US interest rates began rising. The greenback was bought on risk aversion related to uncertainty in the Middle East on April 19, so the pair fell to the lower-$1.06 mark for a time, though it then returned to around the mid-$1.06 range as European stocks rallied.

The pair opened the following week trading at $1.0658 on April 22. It fell to a weekly low of $1.0624 on dovish comments by several ECB officials, though it then bounced back to the mid-$1.06 level. The pair climbed to $1.07 on April 23 on some bearish US economic indicators. On April 24, the pair was weighed down by dollar buying to trade with a heavy topside in the upper-$1.06 range. The pair edged up to the lower-$1.07 mark on April 25 amid a dearth of factors. It temporarily hit $1.0741, though it then tumbled back to the upper-$1.06 level. It subsequently bounced back to the lower-$1.07 range. The pair temporarily hit a weekly high of $1.0753 on April 26, though it then dropped back to the upper-$1.06 mark as the dollar was bought on some firm US indicators.

The pair opened the next week trading at $1.0707 and it then moved in a range around $1.07. It continued trading with a lack of direction around $1.07 on April 30 too.

2. Outlook for This Month

The euro/dollar pair will continue to move with a heavy topside in May. The topside will be weighed down by dollar bullishness as FRB rate cuts are kicked into the long grass, with the ECB also expected to commence rate cuts in June.

The US March CPI data (released April 10) was up on forecasts (+0.4% m-o-m and +3.5% y-o-y), with inflation rising again. The US March retail sales data was also up on expectations (+0.7% m-o-m), with consumption also moving firmly in the US. With inflation reviving and consumption moving firmly, the greenback has moved firmly on expectations that the timing of FRB rate cuts will be pushed back.

When the ECB Governing Council met on April 11 meanwhile, its statement contained new wording about how it might be necessary to reduce the current level of monetary policy restriction, with the statement hinting at a switch to rate cuts. As such, many observers are now expecting the Council to start cutting rates when it next meets on June 6. The eurozone March CPI data (released April 3) revealed that the inflation rate had fallen by more than expected (+2.4% y-o-y). Falling inflation has fueled speculation about rate cuts, with the euro/dollar pair's level falling slightly since the start of April.

However, the reason the currency pair's fluctuations have remained comparatively muted is because, as ECB president Christine Lagarde said at last month's meeting, the ECB is not pre-committing to a particular rate path (rate cuts), so there is also a strong possibility that the ECB might keep rates fixed depending on the data and the external environment going forward. At +2.4% y-o-y, Germany's April CPI data (released April 29; harmonized with other EU nations) was up on the previous month's figure, with this troublesome result serving to slow the euro's slide. Officials have also suggested that geopolitical tensions in the Middle East might drive inflation higher, so any sharp euro depreciation may have to wait until the next ECB Governing Council meeting.

Indicators set for release this month include the eurozone March retail sales data (released Tuesday, May 7), the revised German April CPI data and German May ZEW Indicator of Economic Sentiment (Tuesday, May 14), the preliminary 1Q eurozone GDP data (Wednesday, May 15), the revised eurozone April CPI data (Friday, May 17), and the eurozone May PMIs (Thursday, May 23).

The euro/dollar pair will continue moving with a heavy topside on the results of indicators and monetary policy trends, so investors should keep a prudent eye on how far the pair's level edges down.

Dealers' Market Forecast

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

Bullish on the euro	1 bull	1.0000 – 1.0600	Bearish on the euro	14 bears	1.0800 – 1.0500

* Ranges are central values

Miyachi	Bear	1.0800 – 1.0450	Though there are deep-rooted expectations for ECB rate cuts, the US seems some distance from lowering rates, with the euro unlikely to be bought on this discrepancy. The euro/dollar pair's topside will also be held down by the current market tendency to sell those currencies whose central banks are steering towards rate cuts.
Kawai	Bear	1.0800 – 1.0550	Though a June ECB rate cut seems nailed on, the timing of rate cuts in the US has been pushed back by strong inflationary concerns, with rates also expected to be lowered at a slower pace. As such, the euro/dollar pair is likely to move bearishly this month.
Kawabata	Bear	1.0900 – 1.0500	It seems likely the euro/dollar pair will be swayed by US indicators and the interest rate outlook. Comments by the European authorities suggest they will keep monitoring the data to confirm that inflation is slowing. The eurozone economy is moving bearishly on the whole, so investors might try pushing the pair below its recent range depending on the results of indicators.
Kato	Bull	1.1000 – 1.0600	Most market participants are expecting rate hikes to commence in June, but the recent data suggests there is no need for the ECB to rush into cutting rates, so the euro/dollar pair is likely to continue making minor fluctuations for now.
Yamazaki	Bear	1.0800 – 1.0550	A June ECB rate cut seems a given, but the timing of FOMC rate cuts is being pushed back, so the euro/dollar pair is likely to move bearishly. Investors should also pay attention to US trends, but the pair's trajectory is likely to remain unchanged for now.
Yamaguchi	Bear	1.0900 – 1.0600	The markets are pricing in a June ECB rate cut, so the dollar will be bought on the divergent monetary policies of the US and Europe. However, opinions are still divided about the likelihood of further rate cuts, so the euro/dollar pair is unlikely to fall sharply.
Tagawa	Bear	1.0800 – 1.0400	As with the dollar/yen pair, the euro/dollar pair will probably slide on dollar buying. The ECB is expected to cut rates when it meets in June. One key point will be what the consensus is about ongoing rate cuts. In the medium term, parity might also loom into view.
Matsunaga	Bear	1.0850 – 1.0500	There is a sense the eurozone economy is bottoming out on the performance of the service sector, but more time will be needed for manufacturing to recover. Amid strong expectations for ECB rate cuts, the euro/dollar pair looks set to continue moving bearishly.
Katoono	Bear	1.0800 – 1.0600	The ECB still looks set to commence rate cuts in June. The euro is clearly moving bearishly against the dollar. However, the ECB will probably lower rates at a gentle pace on concerns about the negative impact of sharp currency depreciation. The euro/dollar pair's downside might move firmly at $1.06.
Okuma	Bear	1.0800 – 1.0500	Crude oil prices have risen on Middle East tensions, but it seems the impact of this rise will be muted, with eurozone inflation being kept in check. The ECB has effectively given prior notice that it will cut rates in June, so observers are now focusing on the prospect of further cuts thereafter, with the euro/dollar pair likely to trade with a heavy topside.
Han	Bear	1.0800 – 1.0450	The ECB looks set to cut rates as planned in June. Expectations for FRB rate cuts have waned on the strong economy, with the euro likely to be sold against the dollar on these divergent outlooks.

Ito (Motoi)	Bear	1.0800 – 1.0500	The euro/dollar pair will be swayed by the different monetary policy directions. The timing of the first US rate cut might be pushed back even further. On the other hand, the eurozone is likely to start lowering rates, with further rate cuts expected thereafter. As a result, the euro will probably weaken against the dollar.
Suzuki	Bear	1.0850 – 1.0550	When the ECB Governing Council met in April, it hinted that it might start reducing rates as early as its June meeting. In the US, meanwhile, expectations for early rate cuts are steadily waning, with some parties even suggesting rate hikes might be needed, with the euro/dollar pair set to move bearishly on this clear difference in monetary policy.
Nishi	Bear	1.0800 – 1.0500	Though it seems the FRB will push back the timing of rate cuts, the ECB is likely to begin lowering rates in June as planned. The 1Q eurozone negotiated wage figure will be released this month, with the ECB likely to lower rates after confirming this result. The euro/dollar pair will move bearishly on European/US interest-rate differentials.
Matsuki	Bear	1.0800 – 1.0500	The markets have already priced in a June ECB rate cut, so this is unlikely to push the euro lower. However, there are no signs of disinflation in the US, with speculation about FRB rate cuts waning. As such, the dollar is likely to remain bullish, with the euro moving bearishly in comparison.

Masayuki Nakajima, Europe Treasury Department

British Pound – May 2024

Expected Ranges	**Against the US$: US$1.2350–1.2800**
	Against the yen: JPY190.00–200.00

1. Review of the Previous Month

The pound felt more downward pressure against the dollar from early to late April, with the GBP/USD pair falling -2.7% from $1.2631 to $1.2300 as of April 22. However, the pair then rallied to climb to around $1.255 as of 5pm during London trading time on April 29.

The pair moved more-or-less flatly throughout the first week. With the FOMC meeting looming on May 1, FRB chair Jerome Powell and several other FRB officials struck a cautious stance regarding the timing of rate cuts. The greenback was also pushed higher by the April 5 release of the US March employment data, with the number of new jobs topping market forecasts. In the UK, meanwhile, sterling was also weighed down by the April 2 release of the March Nationwide House Price Index, with the indicator down on a monthly basis for the first time in three months.

The pound fell by around -1.5% against the dollar in the second week. The US March CPI data was released on April 10. The data was up on market forecasts, so expectations for central bank rate cuts faded across the world, with this pushing the dollar higher.

In the third week, the GBP/USD pair fell by a further -0.7%. With US indicators moving firmly, market expectations for US rate cuts waned. The greenback was also bolstered by demand for safe assets as risk sentiments deteriorated globally on rising tensions between Israel and Iran. The currency pair moved heavily on the global trend of dollar buying. It also moved heavily on the April 16 release of a UK labor market indicator, which suggested labor supply and demand tightness and pressure for rising wages were both easing, with the pound also buffeted by dovish comments by BOE Governor Andrew Bailey.

The pair bounced back in the fourth week. In a speech on April 23, the BOE's chief economist Huw Pill struck a cautious tone about the timing of rate cuts and he said the authorities would need to remain vigilant about the risk of inflation persistence. On the same day, MPC member Michael Saunders also said the BOE should remain on guard against inflation risk while monitoring hiring data and the unemployment rate.

With key events like the FOMC meeting and the release of the employment data looming early May, the currency pair continued to recover in the fifth week.

2. Outlook for This Month

The GBP/USD pair is likely to continue moving with a heavy topside in May. There are growing expectations that the BOE will implement rate cuts earlier than the FRB, with this factor weighing the pair's topside down since March this year. There is also a growing sense that the FRB's next move might be in the direction of rate hikes rather than rate cuts, with the dollar likely to continue facing upwards pressure against the pound and other major currencies on this monetary policy divergence. Of course, the scenario could shift on noises by the FRB or inflation and employment trends in the US. The May 1 FOMC meeting and the May 3 release of the US April employment data will also be crucial.

On the UK side, attention will focus on BOE Monetary Policy Committee (MPC) meeting on May 9 and the release of the UK's April CPI data on May 22. Most observers believe the BOE will start cutting rates in June or August, but there is as strong likelihood that the UK's April CPI data (released May 22) will drop sharply on falling energy bills, so there are deep-rooted expectations that the more BOE members will show support for rate cuts. In particular, BOE Governor Andrew Bailey fueled this market speculation on April 17 when he said he expected the April CPI data to show signs of cooling inflations. On April 19, meanwhile, BOE deputy governor Dave Ramsden also supported the view that the first rate cuts were drawing nearer when he said that the balance of domestic risks to the outlook for UK inflation was now tilted to the downside compared to the MPC's February 2024 forecast.

When the dollar/yen pair topped 160 yen on April 29, the pound also temporarily hit 200 yen against its Japanese counterpart. This was effectively its highest level since August 2008. It seems the Bank of Japan (BOJ) and the Japanese Ministry of Finance then intervened in the markets, with the pound/yen pair sliding to 196 yen towards 5pm London trading time on April 29. However, with BOJ governor Kazuo Ueda also saying the yen's slide was having no major impact on keynote inflation, market participants are not expecting any further tightening for now.

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

Australian Dollar – May 2024

Expected Ranges **Against the US$: US$0.6350–0.6700**
Against the yen: JPY98.00–106.00

1. Review of the Previous Month

The AUD/USD pair swung to and fro in April. After rising from the upper-$0.64 level to $0.6644, it dropped back to $0.6363 mid-April before being bought back to $0.65 towards the month's end. The US released some mixed economic data early April, with the currency pair also jostling up and down on comments by FRB officials about the necessity for rate cuts and rising geopolitical risk related to Israel. The US March employment data was then released. The unemployment rate had fallen while the number of new jobs had beaten forecasts, with US interest rates then rising. The pair fell to the mid-$0.65 level before bouncing back to $0.66.

The US released some stronger-than-expected March CPI data on April 10, with the currency pair temporarily crashing below $0.65 on rising US interest rates. On April 11, the greenback was sold sharply in onshore markets after a state-owned bank intervened to support the RMB, with the AUD/USD also rallying to the mid-$0.65 level. The pair plummeted to the mid-$0.64 level on April 12 on reports that Israel was expecting a direct attack from Iran over the next few days.

The pair then tumbled to around $0.6440 on April 15 after Israel's defense minister said Israel would retaliate against Iran. On April 16, the pair broke below its $0.6440 support line to fall to $0.6409. China then released some better-than-expected 1Q GDP data, though the Australian dollar saw no buying as a result. The greenback was then bought after FRB chair Jerome Powell suggested the FRB was in no rush to cut rates, so the currency pair plunged to $0.6390. Australia's March employment data was released on April 18. The number of people in work unexpectedly fell, while the unemployment rate was up slightly on the previous month. With the US new applications for unemployment insurance data and continuing jobless claims figure both dropping below expectations, the greenback was bought. The currency pair then weakened to $0.6417 as the US dollar was bought when NY FRB President John C. Williams said he couldn't rule out the possibility of a future rate hike. Risk aversion intensified on April 19 on news that Israel had attacked Iran, with the AUD/USD pair renewing a low for the year before temporarily sliding to $0.6363. However, it was soon bought back to around $0.6420.

Australia's April PMI was up on the previous month, while the US released a bearish April PMI, so the pair climbed to $0.6490 on April 23. On April 24, the Australian dollar was bought and the pair strengthened to $0.6530 when interest rate futures market participants lowered their expectations to under one rate cut in 2024 following the release of some firm 1Q Australian CPI data. US interest rates then rose on April 25 as investors focused on persistent US inflation following the release of some strong US 1Q core PCE data. The Australian dollar moved firmly early on April 26, though the AUD/USD pair then fell to around $0.6530 when the US dollar was bought on the strong results of the US March core PCE inflation indicator.

The AUD/JPY pair was bought on the movements of the cross yen towards the month's end, with the pair hitting 104.94 yen, its highest level since 2013. With liquidity thin due to a Tokyo holiday, the USD/JPY pair temporarily hit 160.24 yen before plummeting to the mid-154 yen level. This led to growing speculation that the Japanese authorities had made an intervention. The AUD/USD pair subsequently rose to around $0.6590. Australia's March retail sales data was released on April 30, with the data down on the previous month. The pair then fell to the lower-$0.65 level on end-of-month rebalancing and some adjustment from the previous day.

2. Outlook for This Month

The AUD/USD will probably be supported by firm Australian economic indicators in May, though its topside will be held down by the release of some strong US economic data and hawkish comments by FRB officials.

The currency pair rose to $0.66 early April as the Australian dollar was bolstered by falling US interest rates and the rising cost of commodities like copper and iron ore. However, its topside was capped as the greenback was bought on waning expectations for rate cuts and risk aversion related to rising tensions between Israel and Iran. The pair then rallied to $0.65 as the Australian dollar was bought when expectations for Australian rate cuts waned on the firm results of Australia's 1Q CPI data. With the US March employment data and March CPI data both topping forecasts, expectations for US rate cuts fell sharply. Expectations for US and Australian rate cuts are receding substantially at present. In fact, the Australian interest rate futures market has seen moves to price in rate hikes since the release of Australia's March CPI data, with bets on a rate hike by September having risen to just under 25% recently. However, the markets are still reacting more sensitively to the delayed commencement of FRB rate cuts than waning expectations for RBA rate cuts, so if the US releases some more strong economic data going forward, this will probably weigh down the AUD/USD pair's topside.

Noteworthy factors in May include the FOMC meeting (Wednesday, May 1), the RBA board meeting (Tuesday, May 7), and the release of Australia's 1Q wages data (Wednesday, May 15) and April CPI data (Wednesday, May 29). If the FOMC and RBA meetings turn out hawkish and expectations for rate cuts recede further, the pair's trading range could widen. Furthermore, if Australia's 1Q wages data swings upwards, investors may move to price in an RBA rate hike, so caution will be needed. The Australian dollar has been weighed down by Chinese trends, but the Chinese economy seems to be undergoing a manufacturing-led recovery, with some observers believing the Australian dollar will be bought as Australia's trade surplus grows on external demand. However, tensions in the Middle East look set to continue, so there will probably be some substantial price action related to risk sentiment trends, with this situation also requiring monitoring.

Mizuho Ashizaki, Canada Office, Americas Treasury Department

Canadian Dollar – May 2024

Expected Ranges **Against the US$: C$1.3400–1.3900**
Against the yen: JPY112.00–118.00

1. Review of the Previous Month

Canada's March employment data was released on April 5. At 6.1%, the unemployment rate was up on forecasts (5.9%) and the previous month (5.8%). Canada also lost 2,200 jobs compared to forecasts for a gain of 25,000 and an increase of 40,700 the previous month. At 5.0% y-o-y, average hourly wages growth was up on the previous month (4.9%). In the US March employment data, meanwhile, the unemployment rate hit 3.8%, which was unchanged on forecasts and down on the 3.9% figure recorded in February. At +303,000, the nonfarm payrolls was also up on the previous month (+270,000), thus pointing to the firmness of the US labor market. The USD/CAD pair subsequently soared to the mid-C$1.36 range.

The US March CPI data was released on April 10 and it was up on market forecasts. This led to growing expectations that the FRB would only cut rates twice rather than three times in 2024. When the Bank of Canada (BOC) met to set policy on the same day, it kept its policy rate fixed at 5.0%, as expected. The Canadian dollar was sold when the BOC dropped hints about a rate cut in summer, with the currency pair rising to C$1.3703.

Canada's March CPI data was released on April 16. As 2.9% y-o-y, the figure was unchanged on expectations, while the m-o-m figure stood at 0.6%, down on the forecast for 0.7%. The core inflation trimmed mean and median figures (two indicators closely monitored by the BOC) were both down on forecasts, thus indicating that inflation was slowing. As expectations grew for a June BOC rate cut, the Canadian dollar was sold. US long-term interest rates then rose when FRB chair Jerome Powell said it would probably take more time than originally envisaged for the FRB to become convinced that inflation was returning to 2%. With the greenback also being bought on rising geopolitical risk, the currency pair hit $1.3846 for a time. With crude oil prices then rising, the Canadian dollar moved bullishly as a commodity currency, with the USD/CAD pair sliding to C$1.37.

The preliminary US April Composite PMI was released on April 23. With manufacturing and services both slowing, the PMI hits its lowest level in four months, with the currency pair tumbling to the mid-C$1.36 level. The Canadian February retail sales data was released on April 24. At -0.1%, the data was down for the second straight month. The core indicator was also down sharply on forecasts, thus pointing to sluggish consumer spending. The Canadian dollar was sold and the currency pair bounced back to the lower-C$1.37 level. The US Personal Consumption Expenditure (PCE) price index was released on April 26. At 2.7% y-o-y, the figure was up on both forecasts (2.6%) and the previous time (2.5%). At 2.8% y-o-y, the core PCE figure (excluding volatile food and energy prices) was also up on forecasts (2.7%), but the markets were expecting an even higher figure, so yields on US treasuries fell in reaction. The USD/CAD pair weakened to C$1.3636 directly after the announcement.

Trading with thin late April ahead of the FOMC meeting, with the pair moving in a narrow range around C$1.36.

2. Outlook for This Month

When the BOC met to set policy on April 10, it kept its policy rate fixed at 5.0%, as expected. In its quarterly Monetary Policy Report, the BOC upgraded its growth rate outlook for 2023 on increased immigration and household spending. Though the report contained no clear statement about the timing of rate cuts, it did say inflation was returning to the BOC's target range and it mentioned rate cuts could commence in summer. The BOC also refused to rule out a rate cut when it next met in June, though it adopted a cautious stance and said it would need to confirm that inflation was continuing to trend lower. As such, market expectations are growing for a commencement of rate cuts in July. With gasoline prices rising, the BOC predicted that inflation would probably move around 3% over the next few months, though it said inflation would fall to 2.5% in the latter half of the year before returning to the 2% target in 2025. Crude oil prices hit new highs in October last year on tension in the Middle East, with prices remaining high. Rising geopolitical risk has also led to substantial gold buying across the globe. Canada's exports of gold soared, with Canada's February trade surplus up sharply on expectations. Petroleum & coal products also contributed significantly to manufacturing sales in February. The Canadian dollar is a commodity currency and will probably be bought on high crude oil prices, with the USD/CAD pair weighed down as a result. Attention will focus on the release of Australia's April CPI data on May 16. The labor market is moving bearishly and consumer spending is weak, so some economists are predicting that the BOC will discuss cutting rates in June if inflation falls for the fourth straight month.

The US March CPI data (released April 10) remained at the same high level as the previous month, with FRB officials continuing to pour cold water on the idea of early rate cuts. The employment data showed the unemployment rate falling and the labor market moving firmly, with consumer spending and investment expenditures also moving briskly, so the markets are now only expecting one FRB rate cut this year, with expectations growing for a September rate cut. The USD/CAD pair will continue to face upwards pressure from US/Canadian interest-rate differentials and risk aversion on rising geopolitical risk. Tensions in the Middle East have eased for now, but investors are still wary of geopolitical risk, with transportation costs and crude oil prices expected to rise. The pair's rise will be also capped as the Canadian dollar is bought as a commodity currency, so the pair is expected to trade in a range between C$1.35–1.39 this month.

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

Korean Won – May 2024

Expected Ranges **Against the US$: KRW 1,350–1,400**
Against the yen: JPY 10.99–11.63 (KRW100)

1. Review of the Previous Month

The USD/KRW pair rose sharply in April. The pair moved firmly after opening the month at KRW1344.0. The won moved bearishly for a time as the dollar was bought on concerns about US monetary policy. With FRB chair Jerome Powell saying the FRB was in no rush to cut rates, the pair climbed to a 2024 high of KRW1356 on April 2. However, the pair was weighed down by concerns about an intervention at this level and it returned to the lower-KRW1340 midweek. The greenback was then bought during overseas trading time on April 4 on growing tensions between Iran and Israel. The pair subsequently bounced back to KRW1350 on April 5.

The pair made minor fluctuations around KR1350 the following week ahead of the South Korean general election and the release of the US CPI data. The ruling party suffered a crushing defeat in the general election on April 10, but the impact on the currency pair was muted. Expectations for a June US rate hike then faded when the US released some stronger-than-expected CPI data for March. With US interest rates rising, the currency pair strengthened to KRW1360 on April 11. The greenback saw more buying the following day after the ECB Governing Council dropped hints about a June rate cut. When the BOK met to set policy on April 12, it kept its policy rate fixed for the 10th straight meeting. However, the won fell further when the BOK indicated it was not particularly concerned about won bearishness. The USD/KRW pair then renewed a 2024 high of KRW1375.5.

The weekend then saw Iran launching a large attack on Israel on April 14, so the currency pair opened April 15 trading at KRW1380 amid risk aversion. The pair climbed to KRW1390 during the morning of April 16. The RMB then fell sharply after its reference rate was announced. The won was also pulled lower, with the USD/KRW pair temporarily hitting a high of KRW1400.0. The finance ministers of the US, Japan and South Korea met on April 17 and they expressed strong concerns about won and yen bearishness. As concerns about an intervention grew, the won stopped sliding and the currency pair dipped back to the lower-KRW1370 mark. However, FRB officials then made some hawkish comments towards the weekend. With Israel also attacking Iran, the won weakened and the pair hit KRW1390 again, with volatile trading continuing. As tensions in the Middle East eased over the weekend, the pair opened the next week trading at KRW1370. It rose to KRW1380 for a time on demand for overseas dividend payments by South Korean firms, though it then continued moving in a range around KRW1370. When US interest rates stopped rising on April 24, the pair dipped to the upper-KRW1360 level. However, the pair moved in the KRW-1370 range again on April 25. With the FOMC meeting approaching, the pair moved with a lack of direction at the month's end.

2. Outlook for This Month

The USD/KRW pair is expected to move firmly in May.

Amid growing uncertainty about when US rate cuts will take place, US interest rates have risen and the dollar has moved bullishly. After the meeting of finance ministers from the US, Japan and South Korea, the authorities made some strong noises aimed at curbing the won's slide, so the pair's rise was halted after hitting the key KRW1400.0 mark, with the pair now moving from KRW1370 to around KRW1380.

The wording of the BOK's statement after its meeting on April 12 was tweaked to say the BOK would maintain a restrictive policy stance for "a sufficient period of time" rather than a "sufficiently long period of time." This suggested the BOK would start cutting rates in the latter half of 2024. On the other hand, rate hikes have been kicked into the long grass in the US, so if South Korea does cut rates in the near future, this will negatively impact the won too. As such, the BOK will probably keep policy rates fixed for now.

At +3.4% y-o-y, South Korea's 1Q GDP figure (released April 25) was up sharply on market forecasts, with the data pulled up by an export recovery and construction investment growth. Exports were also up +3.1% y-o-y in March. Key semiconductor exports hit a 21-month high of $11.67 billion on rising demand related to more AI investment. The won will be boosted by South Korea's economic recovery, but the greenback is expected to remain bullish, so the USD/KRW pair's room on the downside will be capped in May.

Kazuki Hisamoto, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – May 2024

Expected Ranges **Against the US$: NT$32.00–33.00**
Against the yen: JPY4.65–4.90

1. Review of the Previous Month

The USD/TWD pair rose in April.

The pair opened the month trading at TWD31.920 on April 1. The US released some strong economic indicators at the start of the month, including the March Manufacturing ISM Report on Business and the February Manufacturing Orders data, so the greenback was bought and the currency pair rose to around TWD32.10. Expectations for US rate cuts then flared again ahead of the release of the US March CPI data, so the US dollar was sold and the pair temporarily fell to TWD31.950.

Asian currencies faced selling pressure mid-April when South Korea's ruling party suffered a heavy defeat in a general election on April 12, with the USD/TWD pair also climbing to around TWD32.20. The US released some better-than-expected March retail sales data on April 15. With the greenback also bought on the deteriorating situation in the Middle East, the pair strengthened to around TWD32.50. Concerns of an intervention in the currency markets grew on April 18 after a meeting of the finance ministers of the US, Japan and South Korea, so Asian currencies were bought back and the USD/TWD pair fell to around TWD32.35.

Risk aversion flared up on April 19 on news that Iran had launched a direct attack on Israel, so the US dollar was bought and the currency pair rose to TWD32.675 for a time. Asian currencies were then sold across the board after the USD/JPY pair topped the psychologically-important 155 yen barrier. However, overseas investors bought Taiwanese stocks towards the month's end, while exporters also sold the US dollar, so the USD/TWD pair floated around TWD32.60 on a mixture of selling and buying.

2. Outlook for This Month

The USD/TWD pair is expected to float in a range in May.

Expectations for FOMC rate cuts within the year faded in April on the results of some firm US economic indicators. With the situation in the Middle East also deteriorating and the Bank of Japan sticking to the path of easing, the greenback was bought and Asian currencies faced selling pressure, with the USD/TWD pair strengthening.

The pair looks set to move flatly in May. The FOMC looks set to push the timing of its first rate hike back from mid-2024 to late 2024, with the markets already pricing in such a scenario. Taiwan will not be making any monetary policy decisions this month either, so the pair is unlikely to be swayed much by monetary policy. Taiwan's trade balance is also likely to improve as the semiconductor cycle recovers, but Taiwanese investors are also sending investment funds overseas, so there will also be a mix of buying and selling when it comes to fund supply and demand. As such, the USD/TWD pair is expected to move flatly with a lack of direction this month.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – May 2024

Expected Ranges	**Against the US$: HK$ 7.8300–7.8450**
	Against the yen: JPY 19.10–19.80

1. Review of the Previous Month

Hong Kong dollar spot exchange market in April

The hot US CPI data and Fed's hawkish shift put the HKD under pressure above 7.83 level most of the time in April. With sticky US inflation figures, the Fed is set to keep its policy rate higher for longer and even raised possibilities of resuming its rate hike cycle. Against the background of strong USD, market participants felt comfortable entering carry trade position of long USD/HKD spot, with more than 3 pips return per day after mid-April. The HKD FX swap curve extended its decline as the Fed continued to delay its rate cut timing. While the Hang Seng Index remained in range-trading, the southbound Stock Connect flow continued to provide support to the HKD. However, subdued IPO activities in HK stock market and struggling property market raised concerns about capital outflow from HKD market. The growth momentum for HK economy remained weak. Specifically local consumption suffered from setbacks due to cross-border consumption activities in mainland China and the feeble recovery of inbound tourism.

Hong Kong dollar interest rate market in April

The HKD HIBOR curve declined as the quarter-end seasonality faded, with 1-month and 3-month tenor down to 4.1% and 4.5%, respectively. The expectation of "higher for longer" US rates and the removal of Fed's rate cuts chance in the near term did not result in higher front-end HKD rates but the HKD HIBOR curve becomes upward sloping again. HKD liquidity conditions remained flush as the HKMA aggregate balance remained unchanged at around HKD 45bn in the absence of FX intervention. Subdued IPO activities in the HK stock market and falling HKD loan demand also contributed to a negative HKD rates spread against USD rates. The HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD HIBOR) tumbled from +60pips to +20pips due to rising short-term HKD rates and the delay in Fed's rate cut expectations in coming years.

2. Outlook for This Month

Hong Kong dollar spot exchange market in May

The HKD spot is expected to remain pressure above 7.83 level in the coming month as the Fed is likely to make a hawkish shift after the recent hot US CPI data. With USD rates to stay higher for longer, the carry trade flow of long USD/HKD spot will continue to support USD/HKD spot. The HKD dividend payouts season from Chinese companies listed in HK stock markets is scheduled to kick off in late May, posing a risk of HKD rebound. The upcoming large IPO projects may bring some support to the HKD but is unlikely to reverse HKD weakness due to caution on Chinese/HK investments among foreign investors. The struggling HK housing market, even after the removal of property cooling measures, suggested that capital inflow to HK market will remain limited.

Hong Kong dollar interest rate market in May

HKD liquidity conditions are expected to remain flush as the HKD aggregate balance is expected to stay unchanged. Unless the Fed signals to resume its rate hike cycle, we do not expect the HD spot to fall to 7.85 level, which would trigger HKMA’s FX intervention and HKD liquidity withdrawal. Short-term HKD rates will remain soft before the IPO activities and HKD dividend payouts flow kick in later in Q2. In the medium term, HKD rates are expected to hold at higher level under the USD-HKD peg as the Fed will await more information before gaining confidence to ease.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – May 2024

Expected Ranges **Against the US$: CNY 7.1500–7.2500**
Against the yen: JPY 20.70–22.70

1. Review of the Previous Month

The U.S. dollar/Chinese yuan exchange rate remained stable in April.

On April 1, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 7.22 level. The March ISM® Report On Business® – Manufacturing (PMI®) business confidence index of the U.S. turned out to be strong, in reaction to which the U.S. dollar strengthened. As a result, the U.S. dollar/Chinese yuan exchange rate rose to the upper-CNY 7.23 level on April 2. After the Qingming Festival holidays in China, the U.S. dollar/Chinese yuan exchange rate continued fluctuating mainly at the CNY 7.23 level on April 8 and after. On April 10, the March Consumer Price Index (CPI) of the U.S. was announced, and the result turned out to be strong—above the market estimate. Thus, expectations for policy interest rate cuts in the U.S. diminished, and interest rates in the U.S. rose, strengthening the U.S. dollar in the overall foreign-exchange market. Also, the U.S. dollar/Chinese yuan offshore exchange rate rose to reach the CNH 7.26 level. However, the U.S. dollar/Chinese yuan onshore exchange rate was kept from rising further than the upper end of the daily fluctuation range, remaining at the upper-CNY 7.23 level.

On April 16, the People's Bank of China (PBOC) central parity rate, which was previously set at the CNY 7.09 level, was set at the CNY 7.10 level (7.1028) for the first time in approximately three weeks. In reaction, the upper end of the daily fluctuation range was raised to the CNY 7.24 level, which led the actual trading rate to approach the CNY 7.24 level as well. The media reported thereafter hawkish remarks by Federal Reserve Board (FRB) officials, which led market participants to believe that policy interest rate cuts would start later than initially expected. Under such circumstances, on April 22, the U.S. dollar/Chinese yuan exchange rate reached the CNY 7.24 level at market closing. On April 23, some media outlets reported speculations about Chinese government bond transactions, fueling expectations for monetary easing. As a result, the U.S. dollar/Chinese yuan exchange rate rose to the upper-CNY 7.24 level. Then, on April 25, the Core Personal Consumption Expenditures (PCE) price index of the U.S. for the first-quarter period turned out to be strong, weakening expectations for further policy interest rate cuts in the U.S. Thus, the U.S. dollar/Chinese yuan exchange rate remained strong. As of the time of this writing, the U.S. dollar/Chinese yuan exchange rate has been fluctuating at the upper-CNY 7.24 level.

2. Outlook for This Month

The U.S. dollar/Chinese yuan exchange rate is forecast to remain high in May.

At the moment, there is no sign of a significant change in the economic conditions and monetary policy of China. Under such a condition, the most-impactful factor to lead the U.S. dollar/Chinese yuan exchange rate to fall is a policy interest rate cut in the U.S. At the beginning of the year, market participants expected the policy interest rate of the U.S. to be cut by around June 2024. However, with the strong figures in the U.S. economic indices, market participants are now expecting the policy interest rate to be cut in December. The board members of the FRB also made remarks to suggest that they were not in a hurry to cut the policy interest rate. While market participants are waiting for outcome of the Federal Open Market Committee (FOMC) meeting scheduled for April 30 and May 1, it is inevitable for the FOMC to take a hawkish turn.

In this context, upward pressure is likely to strengthen on the U.S. dollar/Chinese yuan exchange rate. However, the Chinese monetary authorities are keeping the Chinese yuan from depreciating excessively, by strongly imposing an upper end to the daily fluctuation range by setting the daily reference rate toward a stronger Chinese yuan using the counter-cyclical factor. Since the beginning of the year, the Chinese monetary authorities have been setting the central parity rate at around the CNY 7.10 level, as a result of which the upper end of the daily fluctuation range has not exceeded the CNY 7.25 level. On April 18, the PBOC emphasized once more that it would prevent one-sided movement or excessive volatility in the market. The deputy governor of the PBOC and the administrator of the State Administration of Foreign Exchange (SAFE), Zhu Hexin, also made a remark that the central bank's goal and determination to maintain the basic stability of the Chinese yuan exchange rate would not change. Given such an attitude of the Chinese monetary authorities, it is difficult to expect the U.S. dollar/Chinese yuan exchange rate to exceed the support line for the Chinese yuan that has been kept since the beginning of the year.

If the gap between the onshore exchange rate and the offshore exchange rate widens, downward pressure on the Chinese yuan is likely to strengthen. In such a case, the PBOC may revise its central parity rate upward, about which market participants should remain attentive. However, in the onshore exchange market, the upper end of the U.S. dollar/Chinese yuan exchange rate is most likely to remain at the CNY7.25 level for the time being.

Ayaka Matsumoto, Asia & Oceania Treasury Department

Singapore Dollar – May 2024

Expected Ranges	**Against the US$: SG$ 1.3400–1.3800**
	Against the yen: JPY 110.00–118.00

1. Review of the Previous Month

The U.S. dollar/Singapore dollar exchange rate rose in April.

On April 1, the U.S. dollar/Singapore dollar exchange market opened trading at the upper-SGD 1.34 level. On the same day, the March ISM® Report On Business® – Manufacturing (PMI®) business confidence index of the U.S. turned out to be above the market estimate, which encouraged market participants to dominantly buy the U.S. dollar. As a result, the U.S. dollar/Singapore dollar exchange rate rose to the lower-SGD 1.35 level. Thereafter, other U.S. economic indices, including the ISM® Report On Business® – Services (PMI®) non-manufacturing business confidence index, were announced on April 3 with weak figures. The U.S. dollar thus stopped appreciating. On April 5, the number of non-agricultural employees turned out to be significantly higher than the market estimate, while the March employment statistics of the U.S. also turned out to be strong. In reaction, the U.S. dollar/Singapore dollar exchange rate rose temporarily. However, the trend did not last for a long time. On April 9, the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.34 level.

On April 10, the March Consumer Price Index (CPI) of the U.S. was announced, attracting significant attention in the market, and the result turned out to be above the market estimate. As a consequence, interest rates rose in the U.S. Following this trend, the U.S. dollar/Singapore dollar exchange rate also rose sharply from the lower-SGD 1.34 level to the lower-SGD 1.35 level. Then, on April 12, the Monetary Authority of Singapore (MAS) held a monetary policy meeting and decided to maintain its existing monetary policy for the fourth consecutive time. In reaction, market participants sold the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate rose to the lower-SGD 1.36 level. Toward the middle of the month, market participants continued buying the U.S. dollar, as the U.S. economic indices remained strong, and Federal Reserve Board (FRB) officials made hawkish remarks. On April 16, the U.S. dollar/Singapore dollar exchange rate thus temporarily reached the upper-SGD 1.36 level.

On April 17, interest rates in the U.S., which were previously high, started falling. Furthermore, on the same day local time, a G7 joint statement emphasized that excessive volatility in the foreign-exchange market would have negative impacts on various economies, which led the overall Asian currencies to strengthen against the U.S. dollar. Following this trend, the U.S. dollar/Singapore dollar exchange rate fell gradually to reach the upper-SGD 1.35 level toward April 18, the following day. Thereafter, U.S. economic indices were announced with both strong and weak figures, and the U.S. dollar/Singapore dollar exchange rate continued fluctuating in both directions.

On April 23, the March CPI of Singapore was announced, and the result turned out to be 2.7% year-on-year—weaker than the market estimate. However, this did not significantly impact the foreign-exchange market. Toward the end of the month, the U.S. dollar/Singapore dollar exchange rate did not move in any direction without new factors in the market. The U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range at around the SGD 1.36 level.

2. Outlook for This Month

The U.S. dollar/Singapore dollar exchange rate is forecast to remain high in May.

In April, the MAS held a meeting, but its decision was to maintain its existing monetary policy, as had been anticipated in the market. Because the same decision was made at the previous meeting in January, it was the fourth consecutive time for the MAS to maintain its existing monetary policy. The MAS assessed that the current monetary policy is necessary to control import inflation and domestic cost pressures while also sufficient to ensure price stability in the medium term. In the times ahead, the inflation rate would be key in deciding monetary policy. The latest February CPI turned out to be +3.4% year-on-year, and the core CPI turned out to be +3.6% year-on-year—both at their highest since July 2023. The inflation rate is expected to fall in the second half of this year, as import and domestic cost pressures are likely to weaken. Therefore, in general, the next action to take would be monetary easing. However, it is not very likely for the MAS to start taking measures of monetary easing at the next meeting, as concerns over inflation persist.

On the other hand, in the U.S., the March employment statistics and the March retail sales figures were released in April, revealing strong numbers. Furthermore, multiple FRB officials, including FRB Chair Jerome Powell, made cautious remarks regarding early policy interest rate cuts. For these reasons, expectations for early policy interest rate cuts are receding. In terms of the inflation rate, which is attracting substantial attention in the market, the March CPI of the U.S. was +3.5% year-on-year, showing a sign of acceleration from the February figure, which was +3.2% year-on-year. At the beginning of 2024, five to six policy interest rate cuts were expected before the end of the year. However, currently only one to two policy interest rate cuts are expected. Expectations for early policy interest rate cuts are not likely to strengthen unless the inflation rate starts to fall sharply in the near future.

Under such circumstances, it is likely for both Singapore and the U.S. to maintain their existing, respective monetary policies for the short term. However, market participants are more inclined to buy the U.S. dollar, as interest rates in the U.S. are rallying. Therefore, given the current situation, the U.S. dollar/Singapore dollar exchange rate is forecast to remain high in May.

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

Thai Baht – May 2024

Expected Ranges **Against the US$: THB 36.50–37.60**
Against the yen: JPY 4.15–4.30

1. Review of the Previous Month

In April, the U.S. dollar/Thai baht exchange rate continued rising, and toward the end of the month, the exchange rate reached the THB 37 level for the first time since October last year.

The U.S. dollar/Thai baht exchange market opened trading in April at the lower-THB 36 level. Thereafter, the U.S. dollar/Thai baht exchange rate remained in the same trend, as was seen in the previous month. Furthermore, U.S. economic indices turned out to be strong, while U.S. interest rates rose. As a result, the U.S. dollar/Thai baht exchange rate remained high at the beginning of the month. On April 3, the ISM® Report On Business® – Services (PMI®) non-manufacturing business confidence index of the U.S. turned out to be lower than the market estimate, which slowed down the rise of the U.S. dollar/Thai baht exchange rate. However, on the following day, risk-averse sentiment grew in the market due to heightened geopolitical risks. As a result, the U.S. dollar/Thai baht exchange rate rallied. On April 5, the March Consumer Price Index (CPI) of Thailand was announced, and the result turned out to be –0.47% year-on-year, recording a negative figure for the sixth consecutive month. However, this did not significantly impact the foreign-exchange market. On the same day local time in the U.S., the March employment statistics of the U.S. were released with strong figures. However, the U.S. dollar/Thai baht exchange rate did not rise further from the upper-THB 36 level. On the contrary, on April 9, the Thai government approved the budget plan for 2025, which fueled expectations for the budget plan to pass early. This encouraged market participants to buy the Thai baht in an accelerated manner, and the U.S. dollar/Thai baht exchange rate fell to the lower-THB 36 level. However, on the following day, the March CPI of the U.S. turned out to be strong, in reaction to which the U.S. dollar/Thai baht exchange rate rose sharply to the upper-THB 36 level. Thus, the U.S. dollar/Thai baht exchange rate saw some violent fluctuations.

In the middle of the month, the U.S. dollar/Thai baht exchange rate remained stable during the Songkran holidays, which started on April 12, with expectations for policy interest rate cuts in the U.S. to be postponed, along with heightened geopolitical risks. After the holidays, the same trend remained in the market, and the U.S. dollar/Thai baht exchange rate remained high with strong figures in the U.S. indices related to the labor market, along with hawkish remarks by Federal Reserve Board (FRB) officials.

At the end of the month, the U.S. dollar/Thai baht exchange rate continued fluctuating at the upper-THB 36 level, with some upward pressure. However, on April 22, the U.S. dollar/Thai baht exchange rate finally exceeded the psychological turning point and reached the THB 37 level for the first time since October last year. Thereafter, the deputy governor of the central bank of Thailand made a remark to emphasize that the monetary policy might be revised again if the outlook changes and if structural obstacles start lowering the potential growth rate. Thus, the U.S. dollar/Thai baht exchange rate continued fluctuating at the lower-THB 37 level. However, the rise of the U.S. dollar/Thai baht exchange rate slowed down when it approached the latest high seen in October last year. Thereafter, the U.S. dollar/Thai baht exchange rate returned to a level below the THB 37 level. As of 19:00 of April 26, when this article was being written, the U.S. dollar/Thai baht exchange rate has continued to fluctuate at the upper-THB

36 level.

2. Outlook for This Month

In May, the U.S. dollar/Thai baht exchange rate is forecast to remain high.

Expectations for policy interest rate cuts in the U.S. receded, as U.S. economic indices turned out to be unexpectedly strong. In reaction, overall Asian currencies weakened against the U.S. dollar. On April 24, the central bank of Indonesia decided to raise its policy interest rate, which had been unexpected in the market. This shows the difficult situation that Asian currencies are currently experiencing. Under such circumstances, the Thai baht has depreciated against the U.S. dollar by almost 8% since the beginning of the year. Among all the Asian currencies, the depreciation of the Thai baht is particularly significant. This is due to not only the receding expectations for policy interest rate cuts in the U.S. but also domestic factors in Thailand. Compared to neighboring countries, the interest rate level in Thailand is low, at 2.50%. Furthermore, there has been disagreement between the Thai government and the central bank since the beginning of the year, while fiscal concerns are growing regarding economic stimulus plans such as the digital wallet handout scheme. For these reasons, as well, the Thai baht remains weak against the U.S. dollar.

With regard to the monetary policy of the U.S., the outcome of the Federal Open Market Committee (FOMC) meeting (April 30 and May 1) has not been out yet, as of the time of this writing. However, it is difficult to expect the FRB to change the plan given the latest figures in the U.S. economic indices as well as the recent remarks by FOMC members. With regard to the monetary policy of Thailand, the central bank held its latest Monetary Policy Committee (MPC) meeting on April 10, and the policy interest rate was kept unchanged. However, behind the scenes, just before the meeting, the Prime Minister of Thailand requested to cut the policy interest rate, which in the end was not carried out, as had happened before. Furthermore, the central bank statement did not include any signs of policy interest rate cuts in the future. At the press conference after the meeting, the central bank suggested that the government and the central bank did not share the same priorities regarding monetary policy. This even gave the impression that the central bank is somewhat uncooperative. Given such a situation, it is unlikely for the central bank of Thailand to change its existing monetary policy any time soon. It is also worth noting that the media reported that the central bank of Thailand had sent a request at the end of April to revise the economic stimulus plan. Thus, concerns persist over the fiscal situation of Thailand. The situation is unlikely to change any time soon. Therefore, the U.S. dollar/Thai baht exchange rate is forecast to remain high, as is currently seen.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – May 2024

Expected Ranges **Against the US$: MYR 4.70–4.80**
Against the yen: JPY 32.25–34.48

1. Review of the Previous Month

In April, market participants actively bought the U.S. dollar and sold the Malaysian ringgit, as U.S. economic indices confirmed that the inflation rate remained high. Thus, the U.S. dollar/Malaysian ringgit exchange rate approached the MYR 4.80 once again.

At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange rate remained volatile, fluctuating in both directions. On April 1, the March ISM® Report On Business® – Manufacturing (PMI®) business confidence index of the U.S. turned out to be higher than the market estimate, while the payment price for the items composed therein and new orders also recorded stronger growth than expected. As a result, the U.S. dollar appreciated, and the Malaysian ringgit depreciated. Thereafter, on April 3, the ISM® Report On Business® – Services (PMI®) non-manufacturing business confidence index of the U.S. was also announced, which turned out to be weak. At the same time, the appreciation of the U.S. dollar slowed down, and the U.S. dollar/Malaysian ringgit exchange rate fell again. However, the March employment statistics of the U.S. turned out to be strong, which strengthened the U.S. dollar and weakened the Malaysian ringgit again. Then, on April 10, the March Consumer Price Index (CPI) of the U.S. was announced, which confirmed that inflation was accelerating faster than the market estimate. In reaction, the U.S. dollar appreciated in the foreign-exchange market, and based on this, the U.S. dollar/Japanese yen exchange rate rose to the JPY 153 level for the first time in 34 years. As a result, Vice Minister of Finance for International Affairs of Japan Masato Kanda made a remark to discourage excessive fluctuations in the foreign-exchange market, and market participants grew cautious about market interventions, keeping the exchange rate at a stalemate.

Toward the middle of the month, the Malaysian ringgit weakened further. U.S. monetary authority officials made hawkish remarks, while tensions in the Middle East escalated. As a result, the U.S. dollar/Malaysian ringgit exchange market remained volatile. Then, on April 17 at the panel discussion with the governor of the central bank of Canada held in Washington D.C., Federal Reserve Board (FRB) Chair Jerome Powell stated that it would take longer than expected to be sure of a slowdown in inflation. In reaction, the U.S. dollar appreciated further. On the other hand, on April 19, the first-quarter GDP outlook of the U.S. was announced, recording the highest growth rate in approximately a year, at +3.9%. On the same day, March trade statistics also turned out to be stronger than the market estimate, although export figures remained negative. Because these figures fueled expectations for economic recovery, risk sentiment improved in the onshore market.

At the end of the month, risk-averse sentiment regarding the situation in the Middle East receded in the market, and the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range. While market participants continued risk aversion due to the escalating tensions in the Middle East, the market subsequently calmed down when the media reported that Iran would not retaliate. While the European Central Bank (ECB) was expected to cut its policy interest rate in June, there were both strong and weak figures in U.S. economic indices, such as the Purchasing Managers' Index (PMI) and GDP of the U.S., which both turned out to be weak, as well as the Core Personal Consumption Expenditures (PCE) price index, which turned out to be stronger than the market estimate. In the onshore exchange market, there were some transactions that seemed to be interventions by the central bank to support the Malaysian ringgit. Under such circumstances, the Malaysian ringgit appreciated gradually against the U.S. dollar. On April 25, the March Consumer Price Index (CPI) was announced, and the result turned out to be +1.8%—lower than the market estimate. The core inflation rate fell to +1.7%. Furthermore, the outcome of the monetary policy meeting held on April 26 at the Bank of Japan was considered dovish in the market, weakening the Japanese yen. As a result, the U.S. dollar/Japanese yen exchange rate exceeded the JPY 160 level. Following this trend, the Malaysian ringgit/Japanese yen exchange rate also rose sharply to reach the JPY 33 level.

2. Outlook for This Month

In May, there are consecutive holidays in Japan, with the Labor Day holidays in China at the beginning of the month. In the meantime, a Federal Open Market Committee (FOMC) meeting in the U.S. is scheduled for May 2. Therefore, market participants should be attentive of sudden moves in the market.

The U.S. economic indices announced last month revealed some signs of slowdown, such as in business confidence indices and GDP, while price indices confirmed a high inflation rate, such as the CPI and the core PCE deflator. In April, the number of policy interest rate cuts in 2024 in the U.S. expected by market participants decreased from approximately 2.7 to 1.3 in a month, while the expected start of policy interest rate cuts moved from July to November. Some market participants even see a possibility for the policy interest rate cuts to be postponed until next year. Because the U.S. dollar/Malaysian ringgit exchange rate will be impacted by interest rates in the U.S., it is difficult for market participants to start buying back the Malaysian ringgit based on external factors, given the current economic indices in the U.S.

It is also worth noting that, at a meeting held on April 26, Governor of the Bank of Japan Kazuo Ueda announced a decision to maintain measures of monetary easing for a while still, which was considered dovish in the market. Thus, while there were few transactions in the market before consecutive holidays in Japan, the U.S. dollar/Japanese yen exchange rate just rose sharply to reach JPY 160. The Malaysian ringgit/Japanese yen exchange rate also rose to reach JPY 33 for the first time since 2015. Also, in April, Japan, the U.S., and Korea released a joint statement, which made foreign-exchange market interventions more likely, and market participants remain cautious. In particular, liquidity in the market is likely to be low at the beginning of the month due to consecutive holidays, and therefore market participants should be careful about volatility in the Malaysian ringgit/Japanese yen exchange market.

On the other hand, with regard to the Malaysian domestic economy, concerns over domestic inflation remain moderate. Under such conditions, several economic indices, such as GDP and trade statistics, indicate that the domestic economy is recovering thanks to a recovery of exports in the manufacturing sector. Once the Malaysian economy is confirmed to be growing again, market participants are expected to start buying the Malaysian ringgit. Therefore, it is important to pay attention to the domestic economic indices to be released in the times ahead.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – May 2024

Expected Ranges	**Against the US$: IDR 15,900–16,350**
	Against the yen: JPY 0.9434–0.9804 (IDR 100)

1. Review of the Previous Month

In April, 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 mid-IDR 15,800 level on April 1. Because market participants continued buying the U.S. dollar, as was the case in the previous week, the U.S. dollar remained strong against the Indonesian rupiah. Also, on April 1, the March Consumer Price Index (CPI) of Indonesia was announced, and the result turned out to be +3.05% year-on-year, exceeding the market estimate. However, there was little reaction to this news in the market. On the same day local time, the March ISM® Report On Business® – Manufacturing (PMI®) business confidence index of the U.S. turned out to be stronger than the market estimate, which strengthened the U.S. dollar even further. As a result, the U.S. dollar appreciated against the Indonesian rupiah, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 15,900 level. However, the depreciation of the Indonesian rupiah slowed down before the Lebaran holidays, and the U.S. dollar/Indonesian rupiah exchange rate returned to the mid-IDR 15,800 level before the consecutive holidays. During these consecutive holidays, the March CPI of the U.S. was announced, and the result turned out to be stronger than the market estimate. Furthermore, Federal Reserve Board (FRB) officials made hawkish remarks, while market participants took risk-averse actions in reaction to the escalation of tensions in the Middle East, strengthening the U.S. dollar. As a result, the U.S. dollar appreciated against the Indonesian rupiah in the offshore market. On April 16, after the Lebaran holidays, the U.S. dollar/Indonesian rupiah exchange market opened trading at the IDR 16,000 level, with a significantly weaker Indonesian rupiah compared to the closing rate of April 5. Even though Indonesian monetary authorities implied the possibility of market intervention, the Indonesian rupiah continued depreciating against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate once approached the IDR 16,200 level. Then, on April 19, the U.S. dollar/Indonesian rupiah exchange rate reached a monthly high at the upper-IDR 16,200 level. Also, on April 22, the March trade balance of Indonesia was announced, and the trade surplus exceeded the market estimate. However, this is mainly a result of the decline in imports (with exports also recording negative year-on-year growth). Thus, there was little reaction to this news in the market. Then, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at the lower-IDR 16,200 level. On April 24, the central bank of Indonesia held a monetary policy meeting and decided to raise its policy interest rate by 0.25%. However, there was little reaction to this news in the market as well. Before the meeting, the majority of market participants expected the central bank to maintain its policy interest rate at the existing level, and therefore the decision to raise the interest rate came as a surprise. Yet, market participants did not seem to expect significant impact of the policy interest rate hike on the foreign-exchange market, as the U.S. dollar was appreciating.

On April 25, the following day, the Indonesian rupiah weakened, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 16,200 level. Toward the end of the month, pressure to sell the Indonesian rupiah strengthened based on actual demand, and the Indonesian rupiah remained weak. The U.S. dollar/Indonesian rupiah exchange rate fluctuated at the lower-IDR 16,200 level, and then the U.S. dollar/Indonesian rupiah exchange market closed trading.

2. Outlook for This Month

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

Expectation for policy interest rate cuts is currently receding, and the U.S. dollar is expected to continue appreciating. Under such a condition, the central bank of Indonesia decided to raise its policy interest rate by 0.25% at the meeting held on April 24. As a result, the BI interest rate rose to 6.25%—the highest in history. Because the U.S. dollar was appreciating, this decision came as a surprise, as was the case with the policy interest rate hike announced by the central bank after an October meeting last year when the U.S. dollar was appreciating. After that policy interest rate hike, the Indonesian rupiah continued depreciating against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate reached a low at the IDR 15,900 level. Given this experience, this time as well, the Indonesian rupiah is expected to continue weakening if the U.S. dollar continues appreciating. However, it is worth noting that, unlike last time, the governor of the central bank of Indonesia, Perry Warjiyo, mentioned the exact level of the exchange rate this time, to which market participants should pay attention.

On April 24, at a press conference after the monetary policy meeting, Warjiyo explained his view that the U.S. dollar/Indonesian rupiah exchange rate will remain stable, fluctuating at around the IDR 16,200 level in the April–June quarter period of 2024, after which the Indonesian rupiah will appreciate against the U.S. dollar and the exchange rate will fluctuate around the IDR 16,000 level in the July–September quarter period, hovering around the IDR 15,800 level in the October–December quarter period. Because the exact level of the exchange rate was mentioned, the central bank of Indonesia may intervene in the foreign-exchange market more actively if the U.S. dollar/Indonesian rupiah exchange rate moves away from these levels.

In terms of seasonal factors, the pressure to sell the Indonesian rupiah tends to strengthen in May and June, due to dividend payments. However, given that the Indonesian rupiah is approaching its all-time low, it is unlikely for the central bank of Indonesia to allow further depreciation of the Indonesian rupiah, especially because the central bank has always placed priority on the stability of the exchange rate.

Even if the U.S. dollar continues appreciating, it is unlikely for the Indonesian rupiah to depreciate much further, as the monetary authorities of Indonesia are likely to intervene in the foreign-exchange market. Thus, the Indonesian rupiah is forecast to remain stable in May.

Shunsuke Fukuda, Manila Treasury Office, Asia & Oceania Treasury Department

Philippine Peso – May 2024

Expected Ranges **Against the US$: PHP 56.50–58.50**
Against the yen: PHP 0.360–0.385

1. Review of the Previous Month

In April, the Philippine peso depreciated against the U.S. dollar, approaching the resistance line.

At the beginning of the month, the U.S. dollar/Philippine peso exchange market opened trading at the lower-PHP 56 level. At the end of March, there were four consecutive holidays in the Philippines. Thus, in the first week of April, market participants were both buying and selling the Philippine peso based on actual demand. The U.S. dollar/Philippine peso exchange rate continued fluctuating at a level just below the PHP 56.50. On April 8, a monetary policy meeting was held at the central bank of the Philippines, and the policy interest rate was maintained at the existing level for the fifth consecutive time, as had been anticipated in the market. Also, the March Consumer Price Index (CPI) of the Philippines recorded positive growth from the previous month. However, the result was +3.7% year-on-year, slightly below the market estimate. As this is within the target range set out by the central bank (2–4%), it is unlikely for the central bank to change its monetary policy any time soon.

On the other hand, the March employment statistics and price indices of the U.S. turned out to be stronger than the market estimate. In reaction, market participants gradually started buying the U.S. dollar. Also, long-term interest rates in the U.S. and the U.S. dollar index rose, following which the U.S. dollar/Philippine peso exchange rate also rose to the upper-PHP 56 level.

In the middle of the month, market participants continued buying the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate slowly approached the PHP 57 level—the resistance line. This is the resistance line that kept the U.S. dollar/Philippine peso exchange rate from rising further for a long time from August to November last year. Thus, market participants are aware of this resistance level. On April 16, the appreciation of the U.S. dollar slowed down, and the U.S. dollar/Philippine peso exchange rate did not move significantly to just below the PHP 57 level all day long. However, on April 17, the following day, the U.S. dollar/Philippine peso exchange market opened with a stronger U.S. dollar than the closing rate of the previous day, and the U.S. dollar/Philippine peso exchange rate quickly exceeded the resistance line. The U.S. dollar continued appreciating against the Philippine peso thereafter. Thus, the U.S. dollar/Philippine peso exchange rate approached the PHP 57.50 level.

At the end of the month, Federal Reserve Board (FRB) officials made remarks to imply that policy interest rate cuts would start later than previously expected, as U.S. economic indices had turned out to be strong. Because long-term interest rates were also on the rise in the U.S., the U.S. dollar/Philippine peso exchange rate rose further, approaching the PHP 58 level—the next psychological turning point. However, market participants remained cautious, as the Philippine peso had depreciated to its lowest rate against the U.S. dollar in approximately a year and five months since November 2022 and as the depreciation of the Philippine peso had accelerated further in April. Thus, at the end of the month, the U.S. dollar/Philippine peso exchange rate was at a stalemate at the upper-PHP 57 level.

2. Outlook for This Month

In May, the main concern will be whether the U.S. dollar/Philippine peso exchange rate will exceed the PHP 58 mark—the psychological turning point.

The U.S. economic indices recently released confirmed the stability of the labor market and the strength of inflation pressure in the U.S. Thus, even FRB officials started to imply delaying policy interest rate cuts.

As a result, the U.S. dollar is appreciating almost one-sidedly. As a consequence, local currencies are depreciating against the U.S. dollar in many countries, as is seen in the U.S. dollar/Japanese yen exchange market. Following this trend, the U.S. dollar/Philippine peso exchange rate is approaching the psychological turning point. In Indonesia, the policy interest rate was unexpectedly raised, while in Vietnam, the exchange rate is approaching the upper end of the daily fluctuation range.

In May, the U.S. dollar/Philippine peso exchange market is likely to be impacted by interest rates in the U.S., as has been the case so far. A Federal Open Market Committee (FOMC) meeting is scheduled for the beginning of May, and the policy interest rate is expected to be maintained at the existing level. Market participants are now waiting for remarks from FRB officials after the meeting, along with April employment statistics. The U.S. dollar/Philippine peso exchange rate is expected to fluctuate according to U.S. economic indices, and the main concern will be whether the U.S. dollar/Philippine peso exchange rate will break through the PHP 58 level—the psychological turning point.

In 2022, the U.S. dollar/Philippine peso exchange rate fluctuated at the PHP 55.50–56.00 level in August. However, in September, the U.S. dollar started to appreciate, and the Philippine peso started to depreciate, making it possible for the exchange rate to exceed the PHP 60.00 level in October, without slowing down at the resistance line. This year as well, the U.S. dollar/Philippine peso exchange rate was near the PHP 55.50 level in the middle of March, and in April, the Philippine peso started to depreciate, while the exchange rate rose as rapidly as in 2022 to approach the PHP 58 level. As market participants are buying the U.S. dollar globally, it seems difficult for the central bank of the Philippines to keep the Philippine peso from depreciating further. Market participants should thus remain attentive of comments from the central bank of the Philippines. On the other hand, because the U.S. dollar has thus far been appreciating without being adjusted, the current trend may be inversed autonomously by the market to adjust the trend. However, even if that happens, it will only be a temporary trend.

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

Indian Rupee – May 2024

Expected Ranges **Against the US$: INR 82.90–83.80**
Against the yen: JPY 1.82–1.95

1. Review of the Previous Month

In April, the U.S. dollar/Indian rupee exchange rate remained stable above the INR 83 mark, with the Indian rupee weakening slightly.

In April, the U.S. dollar/Indian rupee exchange market opened trading at the lower-INR 83 level. At the beginning of the month, there was a large-scale transaction based on actual demand, which strengthened the Indian rupee. However, the U.S. dollar/Indian rupee exchange rate generally remained stable above INR 83. Toward the middle of the month, upward pressure on the U.S. dollar strengthened, and the Indian rupee started to gradually depreciate against the U.S. dollar. Thus, the U.S. dollar/Indian rupee exchange rate occasionally exceeded the mid-INR 83 level. Thereafter, after the U.S. dollar/Indian rupee exchange rate exceeded that level, the Reserve Bank of India (RBI) started to intervene in the foreign-exchange market by selling the U.S. dollar and buying the Indian rupee, and this gradually adjusted the level of the U.S. dollar/Indian rupee exchange rate. However, toward the end of the month, upward pressure on the U.S. dollar strengthened again, and the U.S. dollar/Indian rupee exchange rate rallied slightly. In the end, the U.S. dollar/Indian rupee exchange market closed trading at the upper-INR 83.40 level (as of April 29).

The BSE SENSEX was on a gradual rise since the beginning of the month, and toward the middle of the month, it reached its highest level in the year. Thereafter, market participants sold stocks to take profits, and thus the index fell once to approach the 72,000 level. However, the stock market generally remained stable. Toward the end of the month, the BSE SENSEX rallied again and approached its highest level in the year once again. There has been a net sell from foreign investors on a single-month basis in the stock market in India. However, there has not been a significant net sell since stock prices have been stable, without falling further from a certain level.

In terms of Indian economic indices, there were both strong and weak figures in the March manufacturing and service industry Purchasing Managers' Index (PMI). At an April Monetary Policy Committee (MPC) meeting, the policy interest rate was kept unchanged at 6.50% for the seventh consecutive time. On the other hand, the voting result was five versus one. Thus, there was a vote to support a policy interest rate cut, as was the case at the two previous meetings. The March Consumer Price Index (CPI) (year-on-year) turned out to be +4.85%, with a decline from the previous month's figure, which was +5.09%, falling to the +4% level for the first time in a while. Also, the March trade balance revealed a decrease in the trade deficit. However, there has constantly been a deficit, which is persistently making the Indian rupee a currency to be sold.

2. Outlook for This Month

In May, the U.S. dollar/Indian rupee exchange rate is forecast to remain high, possibly reaching the INR 84

level.

In May, the U.S. dollar/Indian rupee exchange rate is most likely to remain high, fluctuating within a narrow range, while the Indian rupee is expected to depreciate slowly. In April, the U.S. dollar/Indian rupee exchange rate rose and exceeded the INR 83 mark but in the end returned to the level seen at the beginning of the month. The exchange rate touched the upper and lower ends of the fluctuation range following transactions based on actual demand and foreign-exchange market interventions by the RBI. In particular, the RBI is actively keeping the Indian rupee from depreciating excessively, by intervening in the market to keep the upper end of the fluctuation range when the exchange rate reached the mid-INR 83. Under such circumstances, the RBI is likely to continue keeping the Indian rupee from depreciating further. Thus, the U.S. dollar/Indian rupee exchange rate is forecast to remain stable, while it is becoming increasingly likely for the exchange rate to temporarily reach the INR 84 level with strong upward pressure on the U.S. dollar.

At the MPC meeting held in April, monetary policy was kept unchanged (interest rate hikes to control inflation) with persistent caution against inflation. As the April CPI turned out to record a decline from the previous month, it is now the time for the inflation rate to move toward +4.0%—the target rate. However, market participants should also keep in mind that policy interest rate cuts could start in India in the second half of the year.

In April, there was a net sell in the stock and bond markets in India, as some market participants sold their holdings to take profits. However, both markets remain stable. Thus, the Indian rupee is expected to start appreciating toward the second half of the year when the U.S. economy slows down and policy interest rate cuts start in the U.S. However, market participants are not likely to sell the U.S. dollar to a great extent, and the Indian rupee is more likely to start depreciating thereafter, due to foreign-exchange market interventions by the RBI to keep the Indian rupee from depreciating excessively, along with persistent Indian rupee-selling based on actual demand. Yet, there are some Federal Reserve Board (FRB) officials who expect policy interest rate hikes given the recent inflation rate in the U.S. Thus, it is now necessary to re-evaluate the future outlook of the U.S. dollar/Indian rupee exchange market. Toward the end of the year, there may be multiple important events happening at the same time, such as the U.S. presidential election and the start of policy interest rate cuts in India. Market participants should thus remain cautious about volatility in the foreign-exchange market toward the second half of the year.

This report was prepared based on economic data as of April 30, 2024.