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Mizuho Dealer's Eye

June 2024

Mizuho Bank, Ltd.

Global Markets Sales & Trading Department

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U.S. Dollar – June 2024

Expected Ranges **Against the yen: JPY149.50–159.50**

1. Review of the Previous Month

The dollar/yen pair opened the month trading at 157.70 yen. It then hit a monthly high of 157.99 yen, though it subsequently fell to the lower-157 yen mark on the dovish FOMC meeting. The pair then plummeted to the lower-153 yen level during the early hours of May 2 on what appeared to be an intervention by the Japanese authorities. It recovered to 156 yen for a time, but it then fell back to the lower-153 yen mark. The US released some worse-than-expected April employment data on May 3, with the pair sliding to a monthly low of 151.86 yen. With FRB governor Michelle Bowman then making some hawkish comments, though, the pair strengthened to close around 153.00 yen.

With Japan on holiday on May 6, the pair climbed to the lower-154 yen level on rising US interest rates. On May 7, the pair weakened on news that BOJ governor Kazuo Ueda had met with the Japanese PM Fumio Kishida, though it then strengthened to the upper-154 yen mark after Minneapolis FRB president Neel Kashkari said rate hikes might be needed if inflation persisted. The yen weakened over the latter half of the week and the pair temporarily rose to just below 156.00 yen, though it then tumbled when the US new applications for unemployment insurance figure deteriorated. In the end, the pair closed the week trading in the upper-155 yen range.

The pair began mid-May trading at the upper-155 yen mark. On May 13, the NY FRB's April Survey of Consumer Expectations revealed that some consumers were expecting higher inflation, with the dollar/yen pair subsequently rising to the lower-156 yen level. The pair was also bolstered to the upper-156 yen level on May 14 on the better-than-expected results of the US April PPI data. The closely-watched US April CPI data was released in the latter half of the week. The data moved sluggishly, while the April retail sales data and May NY FRB Manufacturing Index were also down on expectations, so the greenback was sold and the currency pair tumbled to the upper-154 yen mark. The pair then weakened to 153.60 yen on May 16 as short-term investors unwound stop losses. However, the pair then rallied to the mid-155 yen level on the stronger-than-expected US April import price data. The pair continued climbing toward the weekend to close at the upper-155 yen mark.

The pair opened the fourth week trading at the mid-155 yen level. It then rose to the lower-156 yen level after Cleveland FRB president Loretta J. Mester said it would not be appropriate to cut rates three times within the year. It then climbed to the mid-156 yen mark on May 21 on hawkish comments by FRB governor Christopher Waller, though it subsequently weakened to the upper-155 yen mark. However, the pair strengthened to the upper-156 yen range on May 22 on the hawkish contents of the minutes to the FOMC meeting. The pair rose to the lower-157 yen mark on May 23 on the healthy results of the US new applications for unemployment insurance figure and May composite PMI. In the end, the pair dipped slightly to close around 157.00 yen.

With the US and European markets on holiday, the pair fluctuated gently in the upper-156 yen range at the start of the final week. It then moved firmly on May 28 on the bullish result of the US May Consumer Confidence Index. It climbed to the upper-157 yen level on May 29 as the greenback was bought on rising US interest rates. The US then released a bearish revised 1Q GDP figure towards the month's end, with the pair also pushed down to the mid-156 yen level by selling as the cross yen was unwound.

2. Outlook for This Month

The dollar/yen pair looks set to move bearishly in June on an unwinding to the trend of yen bearishness.

Firstly, the pair's topside will be curbed by concerns over an intervention whenever the pair rises. In fact, the authorities have spent around 10 trillion yen on interventions. This is enough to soak up Japan's 2023 trade deficit, with this likely to have an impact on the supply and demand structure. Going forward, it seems the authorities will intervene during times of thin liquidity, with speculators likely to expand their short positions as the principal buyers.

In the futures positions of IMM speculators, yen-short positions have risen to 150,000, with this number swelling at one point to the same level as before the financial crisis of 2008. At the same time, it seems yen short positions have clearly expanded compared to when the dollar/yen pair soared in 2022. Based on this, it seems current market conditions are different from 2022, when the pair was supported by dollar buying and yen selling by Japanese investors on the back of Japan's trade deficit. This year, it seems speculators are the main driver behind the pair's bullishness. As such, the pair might fall if these accumulated positions are unwound, so caution will be needed.

Furthermore, a glance at the cross yen shows the euro/yen pair moving around 170 yen and the pound/yen pair hitting 200 yen, with the sense of market overheating growing by the day. Unlike the US, the countries of Europe seem to be moving closer to cutting rates, so investors should also be on guard against the possibility of the dollar/yen pair falling sharply when the cross yen undergoes some adjustment.

In the long term, US fundamentals will probably weaken slightly, but stagflation seems unlikely any time soon. Furthermore, it seems likely that the US will continue to delay rate cuts on stubbornly high inflation, with this also likely to support the dollar/yen pair.

However, the markets seem to think the currency pair peaked late April, with the dollar likely to weaken going forward, so if speculation grows about a US economic slowdown, this will probably serve as a factor weighing down the pair's topside. In addition, comments by BOJ officials are growing more hawkish, so the yen might be bought on BOJ trends too. In light of the above, it seems the dollar/yen pair will move bearishly on the whole in June.

Dealers' Market Forecast

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

Bullish on the dollar	11 bulls	160.00 – 154.00	Bearish on the dollar	4 bears	159.25 – 150.75

* Ranges are central values

Miyachi	Bear	159.50 – 149.50	Speculative IMM yen short positions have risen to considerably high levels. The cross yen also seems to have risen too high, so the dollar/yen pair will be sensitive to factors related to yen unwinding, such as BOJ trends and a US economic slowdown.
Kawai	Bull	158.50 – 152.00	After falling sharply at the start of May, the dollar/yen pair has edged higher. Concerns about an intervention will probably grow when the pair rises to around 158 yen, but the pair looks set to move firmly in the first half of June. The Bank of Japan will hold its monetary policy meeting mid-June. If it strikes a dovish tone, concerns of an intervention will increase, so the pair might undergo a sharp fall.
Kawabata	Bear	160.00 – 155.00	There are concerns of an intervention and yen interest rates are also rising at present, so the dollar/yen pair will probably trade in a range at highs. A lot will depend on movements at the start of the month and on inflation indicators, but the US still seems some way off shifting policy (something likely to occur in the latter half of the year), so the pair looks set to continue moving flatly.
Kato	Bear	158.00 – 148.00	The yen will continue to undergo a one-sided fall, with speculators also likely to continue buying the dollar on any dips. However, the authorities will grow more concerned when the dollar/yen pair approaches 160.35 yen, its high for the Heisei era (1989–2019).
Yamazaki	Bull	159.00 – 153.00	The dollar/yen pair is expected to trend upwards. The pair's topside will be weighed down by deep-rooted concerns of an intervention at highs, but there is also a scarcity of factors capable of pushing the pair lower, so the pair's movements will continue to be shaped by yen bearishness. Investors should pay attention to the BOJ and FOMC meetings.
Yamaguchi	Bull	161.00 – 155.00	The BOJ has voiced fears about the yen's weakness and it has indicated its tolerance for rising interest rates. However, it seems unlikely that the central bank will continue to actively tighten policy. At the same time, expectations for early FRB rate cuts are fading, with the dollar/yen pair likely to move firmly on ongoing dollar buying.
Tagawa	Bull	161.00 – 153.00	The dollar/yen pair will probably move at its current highs. There is a dearth of reasons to actively buy the yen. The only yen-buying factor would be a market intervention, with the authorities likely to wait until the dollar is bought in bulk by retail investors and on real demand among importers. As such, the pair is unlikely to weaken this month.
Matsunaga	Bull	158.50 – 153.50	The labor market and consumer spending are showing signs of a slowdown in the US, but the fight against inflation remains unfinished. Comments by FRB officials also suggest it will take more time before inflation slows, so the FOMC is unlikely to set out a clear path towards rate cuts when it meets in June.
Katoono	Bull	160.50 – 153.50	The dollar will continue to be bought firmly on waning concerns about disinflation in the US. Though the BOJ looks set to shift in a hawkish direction, this will occur at a slow pace as the central bank monitors the impact of rising wages and consumer sentiments. As such, interest-rate differentials are unlikely to shrink sharply.
Okuma	Bear	159.00 – 152.00	The Japanese government and BOJ are growing more concerned about yen bearishness, with the BOJ likely to strike a hawkish tone when it meets to set policy in June. With the US economy remaining strong, expectations for FRB rate cuts are waning, but the yen is unlikely to undergo a one-sided slide, with the dollar/yen pair's room on the topside likely to be capped.
Han	Bull	160.00 – 154.00	Recent economic indicators have suggested inflation is slowing in the US, but the pace of this slowdown remains sluggish and there is still a shortage of factors supporting a shift to rate cuts. With Japanese/US interest-rate differentials expanding, the dollar will continue to be bought and the yen sold.

Ito (Motoi)	Bull	161.00 – 154.00	The slowdown in inflationary pressure has stalled in the US, so it will not be easy for the FRB to adopt a dovish stance, with the greenback likely to see buying in June too. The dollar/yen pair will edge higher providing the BOJ does not shift policy substantially.
Suzuki	Bull	159.50 – 154.50	The US has started to release some slightly worrying economic indicators, but many FRB officials continue to voice caution about rate cuts. The dollar/yen pair looks set to continue moving firmly on deep-rooted demand for yen selling.
Nishi	Bull	160.00 – 154.00	The US economy is showing signs of a slowdown when it comes to employment and sentiments, but the FRB is likely to remain hawkish and it is prepared to sit back and monitor events for several months. There is hawkish momentum in Japan too, as seen in expectations for further rate hikes and rising interest rates, but the yen is unlikely to be bought for a sustained period.
Matsuki	Bull	160.00 – 153.00	Yen interest rates are rising, but the impact on the dollar/yen pair has been muted. With the FRB remaining hawkish overall and US interest rates rising, the markets will probably focus again on widening Japanese/US interest-rate differentials. The currency pair looks set to edge higher this month, though investors should watch out for any sharp rises.

Ryosuke Kawai, Forex Sales, Global Markets Sales & Trading Department

Euro – June 2024

Expected Ranges **Against the US$: US$1.0700–1.1000**
Against the yen: JPY166.00–173.00

1. Review of the Previous Month

With the markets essentially pricing in an ECB rate cut in June, the eurozone released a series of mixed economic indicators in May, though the economic data improved on the whole, with the euro/dollar pair then rising mid-May on the weak results of some US economic indicators. The pair underwent some adjustment on rising US interest rates late May, but overall it rose from the mid-$1.06 mark to the lower-$1.08 level throughout the month.

(Week 1) The pair opened the month trading at $1.0667 before hitting a weekly low of $1.0650. However, it temporarily rose to a weekly high of $1.0812 on the lackluster results of the US April employment data (released May 3). This trend was short-lived, though, with the pair closing the week trading at $1.0764.

(Week 2) After opening at $1.0758 on May 6, the pair moved with a lack of direction in a range around $1.07 as investors focused on US interest rates and the mixed results of some German economic indicators. The pair fell to a weekly low of $1.0724 on May 9 as US interest rates rose, though it then climbed back to $1.0785 as the US new applications for unemployment insurance data fell below expectations. The minutes to the April ECB Governing Council meeting were released on May 10 and they hinted at a June rate cut, though the impact on the markets was muted. The pair then hit a weekly high of $1.0791 before dropping back to close the week at $1.0771 following hawkish comments by some FRB officials.

(Week 3) After opening at $1.0770 on May 13, the pair rose slightly to the upper-$1.07 range on May 14 on the firm result of the German May ZEW Indicator of Economic Sentiment. The pair weakened to the mid-$1.07 level during NY trading time following the release of the US April PPI data. However, the eurozone then released some better-than-expected March industrial production data on May 15. With the US April CPI data and retail sales data also falling below expectations, the currency pair climbed to $1.0869. The pair strengthened to a weekly high of $1.0895 on May 16, but it then edged lower on dovish comments by ECB officials and rising US interest rates. The currency pair weakened on May 17 on the bearish movements of European stocks and it eventually closed the week trading at $1.0868.

(Week 4) After opening at $1.0872 on May 20, the pair hit a weekly high of $1.0844, though it then weakened to the lower $1.08 mark in the first half of the week on the movements of US interest rates. The pair began climbing on May 23 on the bullish result of the eurozone May Manufacturing PMI data (preliminary), though it then dropped to a weekly low of $1.0805 on the results of some US economic indicators. On May 24, Bundesbank president Joachim Nagel voiced caution about the pace of rate cuts after the June cut, so the euro was bought and the currency pair closed the week trading at $1.0846.

(Week 5) The pair opened at $1.0847 on May 27. The greenback was then sold on falling US interest rates on May 28, with the pair temporarily hitting a weekly high of $1.0889. It then fell to $1.0800 on May 29 as US interest rates rose. It continued falling to hit a weekly low of $1.0789 on May 30 and it was trading around $1.0820 as of 11:00 Tokyo trading time on May 31.

2. Outlook for This Month

In June, the euro/dollar pair will mainly be impacted by the US and European central bank meetings that will take place from early to mid-June. The ECB looks set to implement a rate cut while committing to further cuts going forward, while the FRB is not expected to spring any surprises. However, there is growing speculation that the ECB might push back the timing of rate cuts on the improved economic situation, so the euro/dollar pair looks set to rise this month too.

In April, the currency pair had been swayed by the US March CPI data and it had dropped to around $1.06 after ECB president Christine Lagarde hinted at a June rate cut in her press conference after the ECB Governing Council meeting (in which the ECB decided to keep rates fixed). Things were different in May, though. While pricing in a June ECB rate cut, the pair soared on the mid-May release of some US indicators, including the lower-than-expected April CPI data and retail sales data, with the pair fluctuating sharply on speculation about US monetary policy in the wake of the CPI data in particular.

The most noteworthy factors this month will be the June 6 ECB Governing Council meeting and the June 11-12 FOMC meeting. The ECB looks set to cut rates by -25bp and the FOMC is expected to keep policy fixed, with this scenario basically factored into the currency pair's price. The heads of each central banks will be holding press conferences thereafter, with attention likely to focus on whether they drop any hints about the direction of monetary policy.

In his most recent speech on May 14, FRB chair Jerome Powell said rates would probably be left unchanged, with some time needed before the FRB could be confident inflation was slowing. As this suggests, the FOMC meeting will probably pass without any surprises. However, the May CPI data will be released on the same day and the pair might fluctuate sharply around that time, as mentioned above, so caution will be needed.

On the other hand, ECB president Christine Lagarde may drop hints that the ECB will stick to its guns and continue to cut rates going forward (albeit without setting any concrete dates). However, if some indicators suggest the European economy is improving, this could lead to speculation about a postponement of European rate cuts. If this happens, the euro will probably move bullishly against the dollar in the latter half of the month, once the central bank meetings are out of the way.

With the ECB Governing Council looming, investors will also focus on the results of the May eurozone HICP, set for release at 18:00 Japan trading time on May 31 (as of 12:00 on May 31).

Dealers' Market Forecast

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

Bullish on the euro	8 bulls	1.1000 – 1.0700	Bearish on the euro	7 bears	1.0900 – 1.0600

* Ranges are central values

Miyachi	Bull	1.1000 – 1.0650	The markets have finished pricing in ECB rate cuts. In fact, the dollar looks set to move bearishly as US economic sentiments worsen and US interest rates face less upwards pressure. Investors should be on guard against some cross yen selling, but the euro will probably reap the benefits when the greenback is sold off.
Kawai	Bull	1.1000 – 1.0700	When they meet in June, the ECB looks set to implement a rate cut while committing to further cuts going forward, while the FRB is not expected to spring any surprises. However, there is growing speculation that the ECB might push back the timing of rate cuts on the improved economic situation, so the euro/dollar pair looks set to rise this month too.
Kawabata	Bear	1.1000 – 1.0600	The markets have already factored in a June ECB rate cut, so this is unlikely to impact the euro/dollar pair's movements. There are signs that economic sentiments are improving in the eurozone, but it will take time for this to filter through into further rate cuts, so the euro/dollar pair looks set to continue trading on the movements of US interest rates. The pair is expected to trade in a range.
Kato	Bull	1.1000 – 1.0800	Though it seems certain that the ECB will cut rates first, the forex markets tend to act preemptively with an eye on the future, so it seems market participants are being overly bearish when it comes to the direction of the euro.
Yamazaki	Bear	1.0900 – 1.0650	The euro/dollar pair is expected to trade in a range between $1.07–$1.09. If investors price in a US policy shift on the FOMC meeting or the results of US economic indicators, with the pair could trend lower.
Yamaguchi	Bear	1.0900 – 1.0600	It seems the ECB will begin cutting rates from June on falling inflation in the eurozone. The euro looks set to move bearishly as investors price in intermittent rate cuts going forward. However, the pair's room on the downside will be capped when the cross yen is bought as stocks rise across the globe.
Tagawa	Bear	1.1000 – 1.0550	The situation is unchanged from last month's column. A June rate cut seems nailed on, so this will have no impact on the markets. Investors will focus on hints about further rate cuts. If no consensus emerges about further rate cuts, the euro/dollar pair will be swayed instead by the dollar's movements. The pair looks set to move flatly with a slightly downwards bias.
Matsunaga	Bull	1.0950 – 1.0700	Though ECB officials have voiced their support for multiple rate cuts within the year, there are strong concerns that inflation might rise again in the eurozone, particularly in the service sector. The economy seems to be bottoming out, so the euro/dollar pair looks set to continue moving firmly.
Katoono	Bear	1.0900 – 1.0600	There is speculation that the ECB will continue lowering rates after the June rate cut, but the FRB is likely to remain in hawkish mode, with the euro set to move bearishly on this difference.
Okuma	Bull	1.1000 – 1.0650	A June rate cut seems a certainty, but the markets have already priced this in, so the impact will be muted. The European economy is growing stronger, with the euro/dollar pair set to move firmly on this too.
Han	Bull	1.0900 – 1.0600	The markets have finished pricing in a June rate cut. With sentiments also improving, further factors will be needed before the markets price in further cuts going forward. The euro/dollar pair is expected to trade in a range with a lack of direction.

Ito (Motoi)	Bear	1.0900 – 1.0650	The European economy is moving more firmly than expected, with the ECB likely to cut rates cautiously. Expectations for further rate cuts will wane at times, with this also likely to support the euro/dollar pair.
Suzuki	Bull	1.1000 – 1.0700	The ECB will start cutting rates when it meets in June, but comments by ECB officials have cast doubts on the prospect of ongoing rate cuts thereafter. The economy seems to have bottomed out, so the euro/dollar pair will probably move firmly this month.
Nishi	Bull	1.1000 – 1.0700	The ECB will lower rates when it meets in June. The recently-released 1Q eurozone negotiated wage figure was up on the previous quarter, with eurozone economic indicators also moving firmly, so it is hard to imagine disinflation continuing from here on. The euro/dollar pair will probably be swayed by the movements of the US economy, but it looks set to move somewhat firmly.
Matsuki	Bear	1.0900 – 1.0700	Some ECB officials continue to make dovish noises, with the markets focusing on whether the June ECB Governing Council meeting will point the way to successive rate cuts. However, the markets have priced in ECB dovishness to a large extent, so the euro/dollar pair is likely to trade in a range overall with a slight downwards bias.

Masayuki Nakajima, Europe Treasury Department

British Pound – June 2024

Expected Ranges **Against the US$: US$1.2600–1.3200**
Against the yen: JPY197.00–205.00

1. Review of the Previous Month

In May, the pound had risen by +2.2% against the dollar and +1.7% against the yen as of May 28. The markets focused on the possibility of an early BOE rate cut early May. However, the UK released some stronger-than-expected April CPI data on May 22, so expectations for rate cuts receded sharply and sterling rose.

The GBP/USD pair rallied in the first week. At the FOMC meeting on May 1, FRB chair Jerome Powell said a further rate hike was unlikely, with the meeting read as dovish. US interest rates and the dollar subsequently fell.

The currency pair bounced back in the second week. The BOE's monetary policy statement was read as dovish on its release on May 9, with the pound sliding for a time. However, it then rebounded on the better-than-expected results of the US new applications for unemployment insurance data (which suggested the labor supply and demand situation was easing). The UK 1Q real GDP data was released on May 10. At +0.6% q-o-q, the data returned to positive territories after previously contracting by -0.3% q-o-q in 4Q 2023. This figure was also up on the market forecast for a +0.4% rise, with sterling climbing sharply as a result.

The pound rallied against the dollar in the third week. The US April CPI data was released on May 15 and it slowed on a monthly basis for the first time in six months, with the dollar then sliding globally on renewed expectations for US rate cuts. The UK had earlier released some mixed employment data on May 14. The 1Q unemployment rate was up 0.1%Pt to hit 4.3%, its highest level since last summer. Wage growth moved flatly once bonuses were removed from the equation, but private sector wage growth slowed to +5.9% y-o-y, down on the Bank of England's prediction of +6.0% y-o-y.

The pound rose by +0.3% against the dollar in the fourth week. The UK released some stronger-than-expected April CPI data on May 22. On the same day, Prime Minister Rishi Sunak announced a general election on July 4, with expectations for an early BOE rate cut then waning sharply. The dollar rose and the pound fell in the latter half of the week on hawkish comments by FRB officials, but sterling rose again toward the end of trading on Friday. The pound also hit 200 yen against its Japanese counterpart for the first time since April 29.

2. Outlook for This Month

In June, the pound will continue to be supported by expectations that policy rates will remain high. Two major indicators will be released before the June 20 BOE meeting: the April average wages data (June 11) and the May CPI data (June 19). Given the results of the April CPI data and the fact a general election is looming in July, though, it seems a June rate cut is already off the table.

The May BOE meeting was dovish for the three reasons outlined below. Firstly, BOE deputy governor Dave Ramsden newly cast a vote for a rate cut, with two of the Monetary Policy Committee's nine members now voting for a rate cut (the other one being Swati Dhingra, who had also supported such a move in February and March).

Secondly, the accompanying statement contained a new phrase about how "the Committee will consider forthcoming data releases and how these inform the assessment that the risks from inflation persistence are receding." Governor Andrew Bailey also refused to rule out a June rate cut and he dropped more hints about monetary easing than the markets had expected. Thirdly, the inflation outlook (which forms the basis of the policy rate outlook) was comprehensively downgraded, with the outlook for the end of 2024 lowered to +2.5% y-o-y (down from February's +2.75% outlook).

However, the April CPI figure was up on the BOE's forecast, thus pointing to the stickiness of inflation. At +2.3% y-o-y, the headline figure was down on March's +3.2%, but it was still up on the market forecast for +2.1% y-o-y. CPI inflation was pushing down by energy prices, with Ofgem (the UK's gas and electricity market regulator) setting a new energy price cap level for typical households in April. At +5.9% y-o-y, though, services inflation was more-or-less unchanged on April's +6.0%. When it released its Inflation Report in May, the BOE had also predicted that services inflation would slow to +5.5% y-o-y, but the actual fall was much smaller. This may be because the government hiked the National Living Wage (NLW) by a huge 9.8% y-o-y. Going forward, a lot will depend on data related to CPI and the labor market (particularly wages), but there remains a clear risk that wages might rise, with services inflation remaining high, so it also seems unlikely the BOE will cut rates when it meets on August 1.

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

Australian Dollar – June 2024

Expected Ranges **Against the US$: US$0.6400–0.6800**
Against the yen: JPY99.40–106.00

1. Review of the Previous Month

In May, the AUD/USD pair rose from the upper-$0.64 mark to the $0.67 mark before closing the month in the lower-$0.66 range. The FOMC kept policy fixed when it met on May 1. FRB chair Jerome Powell recognized that inflation was falling at a slower pace, but he said the FRB's next move was unlikely to be in the direction of rate hikes, so US interest rates then fell. The pair subsequently strengthened to $0.6540. The greenback was sold on May 3 as expectations for an early US rate cut rose on the sluggish results of the US April employment data, with the currency pair climbing from around $0.6580 to the mid-$0.66 level. It now seemed the US would begin lowering rates from September at the earliest, up from the earlier prognosis of a November commencement, with the markets moving again to price in two rate cuts in 2024.

Australia's 1Q retail sales data was released on May 7 and it dipped below forecasts to contract by -0.4% q-o-q. The RBA board kept the cash rate fixed at 4.35% when it met in May, with its statement read as dovish, so the currency pair weakened to around $0.6590. The RMB was bought on the robust results of China's April trade balance on May 9, with this also supporting the Australian dollar. The greenback was also sold on the movements of US interest rates and some weak unemployment data, so the pair climbed to $0.6620.

The US dollar was then bought on May 14 when the US April PPI data topped expectations. The currency pair plummeted to $0.6578 for a time, though it bounced back when the greenback was sold after the US March PPI data was revised down by -0.1%. The pair rose to $0.6630 as a result. On May 15, the RMB soared on news that the Chinese government was considering a plan considering a plan for local governments to buy unsold apartments. The Australian dollar was pulled higher too, with the AUD/USD pair rising to around $0.6650. The US April core CPI figure and retail sales data both fell below forecasts, with the currency pair then rising to just below $0.67. On May 16, Australia released some worse-than-expected April employment data, so the pair's topside was held down and it moved in the upper-$0.66 range. China released some bearish April retail sales data and real estate data on May 17, so the Australian dollar was pulled lower and the currency pair slid to the mid-$0.66 mark. However, the NY Dow Jones then topped $40,000 for the first time ever, so the pair climbed to around $0.67.

US interest rates rose on May 20 on hawkish comments by several FRB officials, with the pair subsequently tumbling to around $0.6670. The minutes to the May RBA board meeting were released on May 21 and they revealed the board had discussed rate hikes, with yields on Australian government bonds then rising. With Chinese stocks moving heavily, though, the pair weakened to the mid-$0.66 range. The greenback was bought when the minutes to the May FOMC meeting were read as hawkish on their release on May 22. The pair subsequently fell to the lower-$0.66 mark. The US released a series of stronger-than-expected PPIs on May 23. The contents pointed to buoyant corporate activity and a resurgence of inflation, so the US dollar was bought on a sense that the FRB would be in no rush to cut rates. As a result, the pair dipped below $0.66.

Australia's April retail sales data was released on May 28. It was up on the previous month but down on expectations, with growth moving sluggishly. Australia's April CPI figure was released on May 30. At +3.6%, it rose on expectations to hit its highest level in five months. The currency pair subsequently climbed to around \$0.6670, though it then fell to around \$0.6610 as US interest rates rose at a faster clip. The pair closed the month trading at the mid-\$0.66 mark.

2. Outlook for This Month

In June, the AUD/USD pair's range will probably expand in an upwards direction. The pair's topside will be capped by several factors, including bearish Chinese stocks, a resurgence of geopolitical risk, and rising US interest rates. However, the fact remains that the RBA board discussed rate hikes when it met in May. Australia's May CPI data also rose slightly and it will still probably take some time before inflation hits the RBA's target of 2–3%. As such, it seems likely the pair's range will widen in an upwards direction.

In May, the currency pair rose from the upper-\$0.64 level to the lower-\$0.67 mark on bearish US indicators and a Chinese plan to bolster the real estate sector, with the pair's downside also rising. However, the pair was prevented from staying in the \$0.67 range by rising US interest rates. Though the pair is expected to breach the ceiling of its range in June, investors will be watching to see whether it can become entrenched at \$0.67.

The minutes to the May FOMC meeting (released May 22) revealed that the authorities were unanimous in wanted policy rates to be maintained at high levels for a prolonged period. Expectations fell from two to just one rate cut within 2024 (1 rate cut = 25bp), with the timing of the first cut pushed back from November to December. In Australia, though, it already seemed from the start of the month that even one rate cut seemed unlikely in 2024. With Australia's April CPI figure (released May 30) then rising 0.1%Pt from 3.5% to 3.6%, market expectations for rate cuts faded even further. These expectations for rate cuts and the timing of these cuts will continue to be swayed by the data this month, but the current economic data suggests the US will start lowering rates first, with Australia following suit sometime later. As such, the currency pair's downside will be supported on the whole in June.

Key factors to watch out for this month include Australia's 1Q GDP data (Wednesday, June 5), the US May employment data (Friday, June 7), the US May CPI data and FOMC meeting (Wednesday, June 12), Australia's May employment data (Thursday, June 13), the RBA board meeting (Tuesday, June 18), Australia's May CPI data (Wednesday, June 26), the US 1Q core PCE price index (Thursday, June 27), and the US May core PCE price index (Friday, May 28). Regardless of what happens at the central bank meetings, investors will be scrutinizing comments by FRB officials for hints on price action. If the RBA's statement or minutes serve to dampen expectations for rate cuts, this will probably push the AUD/USD pair even higher.

Mizuho Ashizaki, Canada Treasury Office, Americas Treasury Department

Canadian Dollar – June 2024

Expected Ranges **Against the US$: C$1.3500–1.3900**
Against the yen: JPY112.00–117.00

1. Review of the Previous Month

As expected, the FOMC left policy unchanged when it met on May 1. In his press conference, FRB chair Jerome Powell indicated he was in no rush to cut rates, though he also said it was unlikely to next policy shift would be in the direction of rate hikes. This was slightly more dovish than the markets had expected, so the USD/CAD pair plummeted to C$1.3704. The US April employment data was released on May 3. The unemployment rate deteriorated, while the nonfarm payrolls figure was down sharply on expectations. Also, the average hourly wages figure grew at its slowest monthly pace since June 2021. This saw a temporary rise in expectations for two rate cuts in 2024. As US interest rates fell, the currency pair plummeted to C$1.3610. However, there was a growing sense in the markets that the recent US employment data was not weak enough to prompt an FRB rate cut, so the greenback was bought back and the pair rallied to the mid-C$1.36 level. On May 7, Minneapolis FRB president Neel Kashkari hinted at rate hikes by saying that inflation remained too high. The currency pair climbed to the mid-C$1.37 level, though it moved with a heavy topside when the US new applications for unemployment insurance data suggested the US labor market was stalling. The Canadian April employment data was released on May 10. The unemployment rate was down on expectations, while the number of people in work was up sharply on the previous month. Average hourly wages also grew at a faster monthly pace than expected, though growth was down on the previous month. This led to waning expectations that the Bank of Canada (BOC) would begin lowering rates in June, so the Canadian dollar was bought and the pair fell to C$1.3635. The greenback then moved bearishly on a growing market sense that US inflation was slowing. The US released some slower April CPI data on May 15. The US April retail sales data and the NY FRB Manufacturing Index also performed sluggishly, so the USD/CAD pair fell on growing expectations that the FRB would start lowering rates in September. The pair dipped to C$1.3590 during overnight trading. It then moved in a narrow range. The Canadian April CPI data was released on May 21. Price growth had slowed, with the inflation rate falling within the BOC's 1–3% target range for the fourth straight month. As speculation grew about a June BOC rate cut, the Canadian dollar was sold and the USD/CAD pair strengthened to around C$1.367.

The minutes to the FOMC meeting were released on May 22. They were more hawkish than FRB chair Jerome Powell's press conference, so the greenback rose further. The US new applications for unemployment insurance data also fell for the second straight week on May 23, while the US May preliminary composite PMI hit 54.4, its highest level in over two years, with the pair subsequently rising to around C$1.374. The US dollar continued climbing at the month's end on hawkish comments by FRB officials and rising US treasury yields. However, the greenback was then sold when the US 1Q GDP figure was revised downwards, so the pair weakened to around the mid-C$1.36 level.

2. Outlook for This Month

The BOC's Financial Stability Report was released last month and it revealed that debt repayment costs were rising on high interest rates. It also expressed concerns that reliance on credit might increase if some debtors were placed under huge economic stress by rising unemployment. With the number of vacant office spaces in major cities also rising and the office real estate sector facing considerable pressure, the report said small and medium sized banks (which have the most exposure to the commercial-use property market) are in a very difficult situation.

Though large enterprises are handling their debt burdens well, many more small and medium sized companies are facing bankruptcy compared to a year earlier. The report also said there had been an increase in leveraging by asset management companies (such as pension funds and hedge funds) in order to implement specific trading strategies, with the report saying bond prices could shift suddenly if market expectations for interest rates change, with this potentially impacting the entire financial system.

After the BOC met to set policy rates recently, Governor Tiff Macklem said the BOC wanted to confirm that inflation would continue to trend lower for a prolonged period. He also warned that prices might soar if the BOC cut rates too early. He also turned his gaze to the commencement of FRB rate cuts and he voiced concerns that import prices might be pushed higher if the Canadian dollar was pushed lower by US/Canadian interest-rate differentials. Though Canada's inflation rate is falling and the BOC is laying the ground for rate cuts, there is still uncertainty about when the FRB will make such a move. In May, the markets will be watching to see whether the BOC does indeed begin lowering rates. The financial markets are putting the possibility of such a move at around 60%.

The FOMC will be meeting on June 12. The markets are expected rates to be left unchanged, but observers will be monitoring the economic outlook and FRB chair Jerome Powell's press conference for any hints about the commencement of rate cuts. The US May CPI data will also be released the same day, with market volatility set to rise around this time.

In June, the markets will be swayed sharply by the movements of US/Canadian interest-rate differentials in the wake of the BOC and FOMC meetings. The greenback could be pushed lower on expectations for slowing US inflation, so caution will be needed. The dry season is also upon us, while crude oil prices look set to move firmly on expectations that OPEC Plus will continue to cut production, with these factors also likely to support the Canadian dollar. The USD/CAD pair is expected to move between C$1.35–1.39 this month.

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

Korean Won – June 2024

Expected Ranges **Against the US$: KRW 1,340–1,400**
Against the yen: JPY 11.11–11.76 (KRW100)

1. Review of the Previous Month

The USD/KRW pair moved with a lack of direction in May. The pair opened the month trading at KRW1378.2. It then hit a monthly high of KRW1382.3 for a time, but the previous day's FOMC meeting had not been as hawkish as expected, so the pair was pushed back to trade in the mid-KRW1370 range. With US interest rates sliding, the pair then fell to the lower-KRW1360 level on May 3.

With South Korea on holiday on May 6, US interest rates fell and the currency pair began May 7 trading at the mid-KRW1350 mark. Importers bought the dollar as the pair traded at its lowest level in around a month, with the pair then moving firmly. US interest rates rebounded from May 8 on hawkish comments by FRB officials, so the pair bounced back to KRW1360. With the RMB and yen moving bearishly, the won also weakened. Market attention shifted steadily towards the US CPI data towards the weekend. Amid of dearth of incentives, the currency pair continued trading around KRW1360.

The pair opened the following week trading around KRW1370 over May 13–14 amid caution about the US CPI data. It then fluctuated gently at this level. With South Korea on holiday on May 15, US interest rates fell after the US CPI announcement, with the currency pair crashing to the mid-KRW1340 on May 16. The pair then hit a monthly low of KRW1344.9.

The situation changed the following week, with the greenback rising from May 20. US interest rates climbed on hawkish comments by FRB officials, with the USD/KRW pair also pushed up by RMB weakness. The BOK met to set policy on May 23. It kept the policy rate fixed at 3.5%, as expected, while the BOK governor said uncertainty had grown when it came to the timing of rate hikes. All this was seen as slightly hawkish, so the won moved bullishly, though the pair's room on the downside was capped.

The following week saw the pair moving with a lack of direction from May 27 to continue trading around KRW1360, though the pair strengthened at the month's end as US interest rates rose again. The pair closed the month trading at KRW1379.4 on May 30.

2. Outlook for This Month

The USD/KRW pair is expected to move flatly in June.

As expected, the BOK kept monetary policy fixed when it met on May 23. The BOK is still predicting that inflation will hit 2.6% this year and 2.1% in 2025, though its statement said that "as the upside risks to the inflation outlook have increased since April, we need more time to gain confidence in the convergence of the inflation target."

The currency pair has continued to be swayed by US interest rates recently, with investors ignoring South Korean monetary policy. This trend looks set to continue in June too. US rate cuts are set to commence later than originally envisaged, but the situation remains up in the air.

South Korean exports are moving briskly, with semiconductor exports up 56.1% y-o-y in April. At around $1.5 billion, the trade balance remained in the black for the 11th straight month, with the won likely to be supported by a real-demand recovery, though the currency pair will continue to move flatly until the US monetary policy path becomes clearer.

Kazuki Hisamoto, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – June 2024

Expected Ranges **Against the US$: NT$31.60–32.60**
Against the yen: JPY4.75–5.00

1. Review of the Previous Month

The USD/TWD pair fell in May.

The pair opened the month trading at TWD32.550 on May 2. In in press conference after the May 1 FOMC meeting, FRB chair Jerome Powell said, "the risks to achieving [the FOMC's] employment and inflation goals have moved toward better balance." With US interest rates also trending lower and the dollar/yen pair falling at a fast pace within a range, market speculation about an intervention grew. As Asian currencies faced buying pressure across the board, the Taiwan dollar was also bought and the USD/TWD pair dropped below TWD32.30. Taiwan's April CPI data was then released on May 8. The data was down on market forecasts, so the Taiwan dollar was sold and the currency pair was bought back to around TWD32.40.

In a speech on May 14, FRB chair Jerome Powell said that although the FRB was unsure about the inflation outlook, inflation looked set to continue slowing over 2024. The US April CPI data was then released on May 15. The data was down on market forecasts, with the greenback facing more selling pressure as a result. The Taiwan Capitalization Weighted Stock Index hit a record high on May 16, with the USD/TWD pair temporarily dropping to TWD32.081 as overseas investors poured investment funds into Taiwan. The US April import price data was released during overseas trading time on May 16. The figure was up on expectations, so US interest rates began rising, with the US dollar bought back and the currency pair climbing to the mid-TWD32.20 mark.

On May 20, several FRB officials voiced caution and said it was impossible to say for certain that inflation was returning sustainably to the 2% target. The greenback subsequently faced more buying pressure, with the currency pair strengthening to the lower-TWD32.30 level. On May 22, a US semiconductor major released a bullish sales projection. This led to growing expectations for a Taiwanese export recovery, so the Taiwan dollar was bought and the pair fell to around TWD32.20. The US May Conference Board Consumer Confidence Index was released towards the month's end and it was up on market forecasts. With concerns also growing about deteriorating supply and demand conditions in the wake of an auction of US treasuries, US interest rates rose higher. Risk sentiments worsened and the Taiwan Capitalization Weighted Stock Index fell back after hitting record highs. As overseas investors lifted funds from Taiwan, the Taiwan dollar was sold back and the USD/TWD pair strengthened to TWD32.40.

2. Outlook for This Month

The USD/TWD pair is expected to move with a heavy topside in June.

The FOMC meeting at the start of May was not as hawkish as the markets had feared. With US economic indicators also slowing, US interest rates stopped climbing. The Taiwan dollar also saw buying pressure on rising expectations for a Taiwanese export recovery. All this pushed the currency pair lower.

The USD/TWD pair is expected to move with a heavy topside in June. The FOMC is scheduled to meet, but it is unlikely to veer too far away from current predictions for 1-2 rate cuts within the year. The CPI data is also showing signs of slowing in Taiwan, so it is hard to imagine the Central Bank of the Republic of China (Taiwan) implementing a rate hike like it did in March. As such, the pair is unlikely to fluctuate sharply on monetary policy. At the same time, Taiwanese exports are expected to bounce back as the semiconductor cycle recovers. With the Taiwan Capitalization Weighted Stock Index also hitting record highs, funds are expected to flow into Taiwan. Under these circumstances, the Taiwan dollar is likely to face buying pressure in relation to the supply and demand of funds. As a result, it seems the currency pair will move with a heavy topside in June.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – June 2024

Expected Ranges **Against the US$: HK$ 7.7800–7.8200**
Against the yen: JPY 19.60–20.60

1. Review of the Previous Month

Hong Kong dollar spot exchange market in May

The HKD spot strengthened to below 7.8 handle for the first time this year amid the HKD equities rally. Encouragingly, foreign investors turned less negative towards HK investments due to their low valuations and the improving China property sector outlook. Importantly, the Chinese authorities has turned more proactive to support the property sector, raising hopes of resolving the long-lasting property turmoil. The Hang Seng Index extended its gains to its 10-month fresh high of 19,706 level before paring back their gains. The year-to-date Stock Connect inflow climbed further towards HKD 260bn. The dividend payout pre-positioning HKD buying flow also propelled the HKD spot. However, the HKD spot dropped back to near 7.81 level as the hawkish FOMC minutes reopened discussions on a possible Fed's rate hike later this year. The carry trade of long USD/HKD spot continued to play, with 2 to 3 pips per day of carry return. The slowing equities inflow amid HSI corrections also contributed to the HKD retracement. IPO activities remained relatively subdued compared to past two years. On the corporate side, real FX forward outright flow took place to buy USD when the 1Y USD/HKD forward outright dropped to below 7.76 level.

Hong Kong dollar interest rate market in May

The HKD HIBOR curve came under upward pressure, with 1-month and 3-month tenor returning to near 4.5% and 4.8%, respectively, as the HKD dividend payout flow is expected to drive up HKD demand. The front-end HKD rate remained soft amid capital inflow for equities investment, leaving overnight HKD HIBOR steady at near 4%. Overall, HKMA aggregate balance remained unchanged at around HKD 45bn in the absence of FX interventions. Regarding the HKD IRS curve, the 3-year and 5-year tenors dipped as the Fed's rate hike expectations cooled after the softening US labor and CPI data. As a result, the HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD HIBOR) rebounded from +20pips to +60pips.

2. Outlook for This Month

Hong Kong dollar spot exchange market in June

The HKD spot is expected to fluctuate around the 7.8 handle as the incoming HKD dividend payout flow from the HK-listed Chinese corporate will provide support to the HKD. On the bright side, foreign investors held less bearish view on HK equities due to its low valuations and the announcement of China's new property rescue package. Alongside the half year end seasonal liquidity tightening, market participants may be inclined to unwind their long USD/HKD carry trade positions. Regionally, the USD/CNH and USD/JPY could cause spillover effects towards the EM Asian currencies including USD/HKD, but the Fed's rate cut bias this year should cap the upside for the USD/HKD. Considering the cooling sentiment, the upcoming IPO projects are unlikely to provide support to the HKD.

Hong Kong dollar interest rate market in June

Although the HKD aggregate balance is expected to remain unchanged, HKD liquidity conditions will likely tighten on the half year-end tightening and HKD dividend payouts flow, resulting in the narrowing HKD-USD rate spread. Looking at the historical trend, the 3-month HKD HIBOR showed strong upside seasonality in June, rising in 7 years out of the past 10 years. However, the HKD rate is subjected to the downside in the medium term as the Fed retains its easing bias this year.

Sae Sueyoshi, Treasury Department, MHBK (China)

Chinese Yuan – June 2024

Expected Ranges **Against the US$: CNY 7.1500–7.3000**
Against the yen: JPY 21.00–22.00

1. Review of the Previous Month

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

After Labour Day holidays in China, the U.S. dollar/Chinese yuan exchange market opened trading on May 6 at the lower-CNY 7.20 level. During said holidays, a Federal Open Market Committee (FOMC) meeting was held in the U.S. on May 1, announcing a slowdown of the balance sheet reduction. Furthermore, the remark made by Federal Reserve Board (FRB) Chair Jerome Powell was seen as dovish by market participants, while on May 3, U.S. employment statistics were announced, and the number of non-agricultural employees turned out to be significantly below the market estimate. For these reasons, market participants sold the U.S. dollar against other major currencies. Following this trend, after consecutive holidays, the U.S. dollar/Chinese yuan exchange market opened trading with a fall of approximately 400 pips. Thereafter, market participants bought back the U.S. dollar, albeit to a limited extent. As a result, the U.S. dollar/Chinese yuan exchange rate rose to the upper-CNY 7.22 level on May 8. However, on May 9, the April trade statistics of China were released, and both imports and exports recorded a growth rate beyond the market estimate. Thus, the U.S. dollar/Chinese yuan exchange rate fell and remained low—not going beyond the mid-CNY 7.22 level.

On May 13, the U.S. dollar/Chinese yuan exchange market opened trading at the lower-CNY 7.23 level. The media reported on speculations regarding actions by Chinese monetary authorities to handle excess housing inventory. Furthermore, the April CPI of the U.S. recorded a decline, which strengthened pressure to weaken the U.S. dollar and strengthen the Chinese yuan. As a consequence, on May 16, the U.S. dollar/Chinese yuan exchange rate once fell to the upper-CNY 7.20 level. Thereafter, FRB officials made remarks to emphasize that they were not in a hurry to cut the policy interest rate. In reaction, the U.S. dollar strengthened toward the end of the week. The U.S. dollar/Chinese yuan exchange rate also recovered to the CNY 7.22 level.

On May 20, the U.S. dollar/Chinese yuan exchange market opened trading at around the CNY 7.23 level. The FRB official made hawkish remarks to emphasize that they were not in a hurry to start cutting the policy interest rate in the U.S., in reaction to which interest rates, which had once declined in the previous week due to the weak April CPI of the U.S., started to rally. As a result, the U.S. dollar strengthened as well. Following this trend, the U.S. dollar/Chinese yuan exchange rate rose as well, albeit to a limited extent, and reached the mid-CNY 7.24 level.

On May 27, the U.S. dollar/Chinese yuan exchange market opened trading at around the CNY 7.24 level. The U.S. dollar appreciated, and the Chinese yuan depreciated, mainly because of the fact that the People's Bank of China (PBOC) central parity rate was set toward a moderately weaker Chinese yuan, while interest rates in the U.S. continued rising. However, the U.S. dollar/Chinese yuan exchange rate did not easily exceed the CNY 7.25 mark. Under such a situation, trading closed at CNY 7.2495.

2. Outlook for This Month

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

In the U.S., economic indices turned out to be weaker than expected, which caused the U.S. dollar to sporadically weaken. However, FRB officials made a series of remarks to confirm that they were not in a hurry to start cutting the policy interest rate in the U.S., and this supported the stability of the U.S. dollar. In the market, the FRB was expected to start cutting its policy interest rate at around June 2024 as of the beginning of the year. However, it is now expected to start around December this year. It is likely for the dot plot to be revised upward at the FOMC meeting scheduled for June 11 and 12. Thus, the interest rate level is expected to remain as-is, and the U.S. dollar/Chinese yuan exchange rate is expected to remain high, even though this may change depending on economic data.

On the other hand, in China, the PBOC central parity rate is currently set at around the CNY 7.11 level. The Chinese yuan has been weak since the U.S. dollar/Chinese yuan exchange rate touched CNY 7.0930—the latest low—on March 13. If the PBOC maintains the current principle in setting the central parity rate, the upper end of the 2% fluctuation range is also likely to move toward a weaker Chinese yuan, leading the market exchange rate to also move toward the CNY 7.30 level, of which market participants should remain attentive.

It is also worth noting that the Chinese domestic economy has been on a moderate recovery, with figures in various industries recording positive year-to-year growth, albeit to different degrees, apart from those in the real estate industry. The real estate market continues to record negative year-on-year growth. However, in May, the Chinese monetary authorities announced their decision to support the handling of excess inventory and downpayments for housing purchases, and this was seen positively in the market, which led to the temporary appreciation of the Chinese yuan.

From the viewpoint of current balances, as well, the deficit in the service industry increased mainly due to the increase in the number of foreign tourists during Labour Day holidays. On the other hand, there are market participants buying the Chinese yuan based on actual need, thanks to the trade surplus of China, which is a factor to weaken the U.S. dollar and strengthen the Chinese yuan. Market participants should also be attentive of factors of uncertainty, such as headlines related to the Presidential election in the U.S. and China-U.S. relations.

Ayaka Matsumoto, Asia & Oceania Treasury Department

Singapore Dollar – June 2024

Expected Ranges	**Against the US$: SG$ 1.3400–1.3800**
	Against the yen: JPY 112.00–118.50

1. Review of the Previous Month

The Singapore dollar appreciated against the U.S. dollar in May.

On May 1, the U.S. dollar/Singapore dollar exchange market opened trading at the mid-SGD 1.36 level. Because it was Labour Day, markets in Asia were mostly closed, including that of Singapore. Thus, there were few signs of movement in the market during trading hours in Asia. On the other hand, during trading hours in the U.S., a Federal Open Market Committee (FOMC) meeting was held, attracting substantial attention in the market, and the policy interest rate was maintained at the existing level. However, Federal Reserve Board (FRB) Chair Jerome Powell made a remark stating that the possibility for a policy interest rate hike was low, and this mitigated concerns about the hawkish attitudes of the FRB, encouraging market participants to sell the U.S. dollar. Following this trend, the U.S. dollar/Singapore dollar exchange rate also fell to approach the SGD 1.36 level toward the end of the day. Thereafter, interest rates continued falling in the U.S. Furthermore, the April employment statistics of the U.S. were released on May 3, revealing the number of non-agricultural employees and the average salary falling below the market estimate, and these factors kept a downtrend for the U.S. dollar. Consequently, the U.S. dollar/Singapore dollar exchange rate once fell to the mid-SGD 1.34 level on May 3.

On May 7, President of the Federal Reserve Bank of Minneapolis Neel Kashkari made a remark to predict that the existing policy interest rate was likely to be maintained for a long time. In reaction, less market participants expected the policy interest rate in the U.S. to be cut any time soon, leading interest rates in the U.S. to rally. Because the depreciation of the U.S. dollar had slowed down, the U.S. dollar/Singapore dollar exchange rate rallied to the mid-SGD 1.35 level on May 9. Toward the middle of the month, market participants waited for new factors in the market, and the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range. However, on May 15 local time in the U.S., the April Consumer Price Index (CPI) of the U.S. was announced, confirming a slowdown in inflation, and this encouraged market participants to start selling the U.S. dollar again. As a result, the U.S. dollar/Singapore dollar exchange rate once fell to reach the lower-SGD 1.34 level on May 16.

Thereafter, FRB officials made both hawkish and dovish remarks regarding monetary policy, as a result of which the U.S. dollar/Singapore dollar exchange rate continued fluctuating in both directions mainly at around the upper-SGD 1.34 level. However, on May 22, the minutes of an FOMC meeting was released, revealing hawkish content in which various participants mentioned a willingness to tighten monetary policy further, if necessary, and this encouraged market participants to buy the U.S. dollar. Also, thanks to strong economic indices in the U.S., the U.S. dollar/Singapore dollar exchange rate recovered to the SGD 1.35 level on May 24. It is also worth noting that, on the same day, the April CPI of Singapore was announced, and the result turned out to be 2.7% year-on-year, as had been anticipated in the market. This impacted the foreign exchange market only to a limited extent. Toward the end of the month, the U.S. dollar remained strong, and the U.S. dollar/Singapore dollar exchange rate continued fluctuating mainly at the lower-SGD 1.35 level, while rising little by little.

2. Outlook for This Month

In June, the U.S. dollar/Singapore dollar exchange rate is forecast to remain high.

In May, the Singapore dollar strengthened against the U.S. dollar. This is due to mixed results in the U.S. economic indices as well as remarks made by some FRB officials that were considered slightly dovish compare to previously. The employment statistics that were announced last month revealed the number of non-agricultural employees and the average salary falling below the market estimate. Furthermore, the April CPI of the U.S. turned out to be +3.4% year-on-year, confirming a slowdown of inflation from the previous figure. There will be a FOMC meeting in June as well. However, given that a number of FRB officials made remarks to express cautious feelings about policy interest rate cuts, there are no surprises expected at the meeting. It is too early to expect the U.S. dollar to start depreciating based on weak figures in the U.S. economic indices and dovish remarks made by FRB officials. For this reason, the U.S. dollar is forecast to remain strong in June.

On the other hand, in Singapore, the April headline CPI was +2.7% year-on-year, while the core CPI was +3.1% year-on-year. Thus, both figures remained unchanged from the previous results. The Monetary Authority of Singapore (MAS) released its outlook such that the price level would fall in the second half of this year, as imported and domestic cost pressures continue to abate. However, it is important to keep carefully observing whether inflation will really slow down in the times ahead as predicted, as various other countries in Asia face risks of returning inflation based on the rise of food and energy prices. It is also important to note that the MAS continued to evaluate its current monetary policy as sufficient toward securing price stability from a medium-term perspective. This makes it unlikely for the current monetary policy to be modified at the next MAS meeting scheduled for July. Yet, in the U.S. dollar/Singapore dollar exchange market, there has recently not been an obvious factor to weaken the U.S. dollar, as was discussed above, and thus, the U.S. dollar is forecast to remain strong.

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

Thai Baht – June 2024

Expected Ranges **Against the US$: THB 36.00–37.30**
Against the yen: JPY 4.20–4.30

1. Review of the Previous Month

In May, the Thai baht recorded its highest level in approximately two months against the U.S. dollar, after which the fall of the U.S. dollar/Thai baht exchange rate slowed down. At the beginning of the month, the market was closed in various countries in Asia, including Thailand. The U.S. dollar/Thai baht exchange market opened trading at the lower-THB 37 level. Market participants continued buying the U.S. dollar based on the rise of interest rates in the U.S. observed on the previous day. As a result, the U.S. dollar/Thai baht exchange rate renewed its highest rate since the beginning of the year. Thereafter, the U.S. dollar/Thai baht exchange rate quickly reached the monthly high in May. The Federal Open Market Committee (FOMC) meeting held in May had a slightly dovish outcome, which caused the U.S. dollar/Thai baht exchange rate to fluctuate in both directions. Subsequently, the U.S. dollar/Thai baht exchange rate fell to the upper-THB 36 level. On May 3, the April employment statistics of the U.S. also turned out to be weak, which led the U.S. dollar/Thai baht exchange rate to momentarily fall to the mid-THB 36 level. However, as it was before consecutive holidays in Thailand, the closing rate was not remarkably low. In the following week, the Thai GDP outlook for 2024 was revised downward, which led the U.S. dollar/Thai baht exchange rate to temporarily reach the THB 37 level. However, the U.S. dollar weakened thereafter against many other currencies to offset the appreciation seen previously. Under such circumstances, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range at the upper-THB 36 level.

In the middle of the month, the April Consumer Price Index (CPI) of the U.S. was announced, attracting substantial attention in the market. However, the headline CPI fell below the market estimate. The April retail sales of the U.S. also turned out to be weak, and this encouraged market participants to sell the U.S. dollar globally. As a result, the U.S. dollar/Thai baht exchange rate fell to the lower-THB 36 level, after which the exchange rate continued falling for several days. In the meantime, the first-quarter GDP of Thailand was announced, and despite pessimistic outlook, the year-on-year fall was smaller than expected. Thus, the pessimistic sentiment toward the economic outlook in Thailand was mitigated, and this accelerated the fall of the U.S. dollar/Thai baht exchange rate, which once reached the THB 35 level.

At the end of the month, market participants were encouraged to buy back the U.S. dollar based on the rise of interest rates in the U.S., mainly as a result of bond issue announcements, as well as hawkish statements by Federal Reserve Board (FRB) officials. Consequently, the U.S. dollar/Thai baht exchange rate recovered to the lower-THB 36 level. The minutes of the FOMC meeting held in May also confirmed that committee members supported additional measures of monetary tightening. In reaction, the U.S. dollar/Thai baht exchange rate continued rising to the mid-THB 36 level. The April number of new car sales in Thailand recorded the lowest figure since August 2021, which was in the middle of the Covid-19 pandemic with the highest number of cases. Furthermore, interest rates rose in the U.S. with stronger economic indices, while the U.S. dollar appreciated, and the Thai baht depreciated both domestically and internationally. As a consequence, the U.S. dollar/Thai baht exchange rate rose to the upper-THB 36 level. Yet, the expected inflation rate in the U.S. was revised downward, which stopped the U.S. dollar/Thai baht exchange rate from rising further. The U.S. dollar/Thai baht exchange rate continued fluctuating at around the mid-THB 36 level for a while. Toward the end of the month, less market participants expected the start of the policy interest rate cuts in the near future, while long-term interest rates in the U.S. caught up with the yield of 10-year U.S. government bonds rising significantly. As a result, the U.S. dollar strengthened against almost all the other currencies. The U.S. dollar/Thai baht exchange rate thus rose slightly and continued fluctuating at the upper-THB 36 level.

2. Outlook for This Month

In June, the U.S. dollar/Thai baht exchange rate is forecast to remain high, with two key events scheduled in the month: the Monetary Policy Committee (MPC) meeting at the central bank of Thailand and the FOMC meeting in the U.S.

In May, the FOMC meeting turned out to be slightly dovish, and the U.S. employment statistics also turned out to be weak. As a result, interest rates fell in the U.S. toward the middle of the month. The appreciation of the U.S. dollar seen previously was offset. However, the fall of interest rates in the U.S. stopped thereafter, while FRB officials made hawkish remarks, which reminded market participants of the motto "higher and longer." With rising interest rates in the U.S., the depreciation of the U.S. dollar seen previously was almost offset again.

The outcome of the FOMC meeting in June will be announced on June 12 during the night local time in Thailand, on which the central bank of Thailand schedules to hold an MPC meeting. Thus, it is unlikely for the central bank of Thailand to take an action before the FOMC. Thus, the central bank of Thailand is expected to maintain its current monetary policy, and the impact of the MPC meeting in the foreign exchange market is likely to be minimal. Also, the number of new car sales in Thailand has fallen to the lowest level since summer in 2021, at which the situation of the Covid-19 pandemic was at its worst. Thus, the central bank of Thailand is concerned about a downturn in the domestic economy. However, early decision to cut the policy interest rate may cause further depreciation of the Thai baht. Thus, even if the central bank of Thailand wishes to take action, it does not seem possible yet.

In the U.S., on the other hand, there are sometimes weak figures seen repeatedly in economic indices, and this encourages market participants to sell the U.S. dollar as a sign of policy interest rate cuts. Yet, when the figures in economic indices rally and when FRB officials make hawkish remarks, the U.S. dollar starts to rally. Such a trend has been observed since the beginning of the year. Each time it happens, the expected timing of the policy interest rate cut is moved back. As of now, market participants have expected a possible policy interest rate cut at the FOMC meeting to be held either in November or December. In two weeks as of this writing, the June FOMC meeting will be held in the U.S., and the dot plot will be revised as well. Given current economic indices, it is unlikely for FOMC members to grow confident about an improvement in the inflation level. Therefore, the U.S. dollar is not likely to weaken.

Furthermore, it is also worth noting that the Chinese yuan has been on a moderate downtrend against the U.S. dollar, which is also a negative factor for the Thai baht exchange market. For these reasons, the U.S. dollar/Thai baht exchange rate is forecast to remain high in June.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – June 2024

Expected Ranges **Against the US$: MYR 4.64–4.75**
Against the yen: JPY 32.79–33.90

1. Review of the Previous Month

In May, the Malaysian ringgit appreciated against the U.S. dollar, as U.S. dollar interest rates fell based on the outcome of the Federal Open Market Committee (FOMC) meeting as well as on U.S. economic indices.

At the beginning of the month, there were few market participants during trading hours in Asia, because of the Labour Day holidays in China and a series of national holidays in Japan. While the liquidity level in the market was low, market participants sold the U.S. dollar in an accelerated manner after the FOMC meeting was held on May 2. At the press conference after the FOMC meeting, Federal Reserve Board (FRB) Chair Jerome Powell expressed his view that there was no progress toward the inflation target of 2%. However, market participants considered his remark as less hawkish than before. Furthermore, there was an announcement on a slowdown in the measures of quantitative monetary tightening in June, and this led interest rates in the U.S. to fall. These are the main factors that seem to have led to the U.S. dollar-selling. Furthermore, around the same time, the Japanese yen appreciated sharply based on large-scale transactions, which is a form of market intervention, by the Bank of Japan. On May 2, the following day, market participants predominantly bought the Malaysian ringgit against the U.S. dollar in the onshore market. Thereafter, on May 9, the central bank of Malaysia announced its decision to maintain its policy interest rate at 3% for the sixth consecutive time. While the inflation level within the country has been stabilizing, the central bank of Malaysia seems to consider the current policy interest rate level as appropriate for supporting the domestic economy. Thus, the decision to maintain the existing policy interest rate was in line with the market estimate.

Toward the middle of the month, the Producer Price Index (PPI) of the U.S. was announced on May 14, while the Consumer Price Index (CPI) of the U.S. was announced on May 15, both of which turned out to be within the range expected in the market. On the other hand, the retail sales of the U.S. turned out to be below the market estimate. Furthermore, the growth rate was revised downward for the past two months. As a consequence, interest rates in the U.S. fell, weakening the U.S. dollar. Thereafter, the first-quarter GDP was announced on May 17, and the result turned out to be +4.2%, with growth accelerating from +3.9%—the result announced in April—thanks to an increase in private consumption, as well as exports, which bottomed out. This is a positive factor for the outlook of the future domestic economy in Malaysia. It is also worth noting that there were occasional transactions from foreign investors to buy the Malaysian ringgit, which was another reason for the appreciation of the Malaysian ringgit.

At the end of the month, the minutes of the FOMC meeting were released, and the contents were considered hawkish, which strengthened the U.S. dollar. Also, on May 20, the April trade statistics of Malaysia were released, and both imports and exports turned out to be below the market estimate. However, exports recorded positive growth for the first time in three months, which kept the Malaysian ringgit strong thereafter. On May 23, after the Vesak holidays, the minutes of an FOMC meeting were released, as a result of which the U.S. dollar/Malaysian ringgit exchange rate rose significantly. Even though the decision to maintain the policy interest rate at the existing level was a unanimous decision made by the FOMC members, the minutes revealed that multiple members made remarks such that the current policy interest rate was not sufficient to achieve the target inflation rate of 2%. As a result, market participants bought the U.S. dollar thereafter. On May 24, the April CPI of Malaysia was announced, and the headline CPI turned out to be +1.8%, falling below the market estimate. This confirmed that domestic inflation was limited under the current conditions.

2. Outlook for This Month

In June, an FOMC meeting is scheduled in the U.S. for June 13, while the Bank of Japan plans to hold its monetary policy meeting on June 14. Thus, the U.S. dollar/Malaysian ringgit exchange rate is likely to fluctuate following factors in the market abroad.

At the FOMC meeting to be held on June 13, the policy interest rate outlook by FOMC members, i.e., the so-called dot plot, will be announced. In the previous dot plot released in March this year, the median expected number of policy interest rate cuts before the end of 2024 was three. Thereafter, more economic indices of the U.S. were announced, which fueled expectations in the market for a further decline in the number of expected policy interest rate cuts and a postponement of the start of said policy interest rate cuts. Thus, market participants should remain attentive to the early morning of June 13. At the previous FOMC meeting held in May, FRB Chair Jerome Powell made a remark that there was only a limited possibility for policy interest rate hikes, and this raised the level of relief in the market. However, it is possible for the FRB to imply policy interest rate hikes in the meeting scheduled in June. If that happens, market participants would rapidly start buying the U.S. dollar, having accepted the hawkish attitude of the FRB, of which market participants should remain attentive. In the market, there has been a consensus to expect a policy interest rate cut in November or December 2024. Since it will overlap with the time of the Presidential election in the U.S., the U.S. dollar/Malaysian ringgit exchange rate is likely to fluctuate violently in the second half of 2024.

It is also worth noting that the Bank of Japan is scheduled to hold its monetary policy meeting on June 14. The Bank of Japan has been steadily sending signals to the market in order to justify policy interest rate hikes. Even though it is not very likely for the Bank of Japan to raise its policy interest rate at the monetary policy meeting scheduled in June, it is important to pay attention to remarks by Governor of the Bank of Japan Kazuo Ueda. In particular, market participants are waiting to know his view on how the depreciation of the Japanese yen would impact the price level. Therefore, questions related to this point are highly likely to be asked at the Q&A session at the press conference scheduled for after the monetary policy meeting in June.

Finally, with regard to the domestic economy in Malaysia, the first-quarter GDP, the April trade statistics, and the CPI all turned out to be strong enough to suggest further growth in the times ahead. The inflation level in Malaysia has also been sufficiently controlled under the current conditions, which is another piece of good news. If market participants start buying the Malaysian ringgit based on actual demand in a full-fledged manner again, it will be another supporting factor for the Malaysian ringgit.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – June 2024

Expected Ranges	**Against the US$: IDR 15,900–16,350**
	Against the yen: JPY 0.9524–0.9901 (IDR 100)

1. Review of the Previous Month

In May, the Indonesian rupiah appreciated against the U.S. dollar, after which the exchange returned to the level seen at the beginning of the month.

At said beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading on May 2 at the lower-IDR 16,200 level, with a stronger Indonesian rupiah compared to the closing rate of the previous business day, thanks to the outcome of the Federal Open Market Committee (FOMC) meeting held on the previous day local time in the U.S. On the same day, the April Consumer Price Index (CPI) of Indonesia was announced, and the result turned out to be slightly below the market estimate. On the other hand, the core CPI turned out to be above the market estimate. There was little reaction to these figures in the market. On the same day local time, interest rates in the U.S. fell, and the U.S. dollar started to weaken again. As a consequence, the Indonesian rupiah appreciated against the U.S. dollar on May 3, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 16,000 level. On May 3 local time in the U.S., the April employment statistics of the U.S. were released with figures below the market estimates. In reaction, the U.S. dollar depreciated against the Indonesian rupiah on May 6, and the U.S. dollar/Indonesian rupiah exchange rate once reached the upper-IDR 15,900 level. However, there were market participants rigorously buying the U.S. dollar at this exchange rate, and the U.S. dollar rallied slowly. On May 13 local time in the U.S., the April figure of the inflation forecast for one-year ahead was announced by the Federal Reserve Bank of New York, and this turned out to be at the highest level in approximately five months. Consequently, market participants continued buying the U.S. dollar in an accelerated manner, and the Indonesian rupiah continued depreciating against the U.S. dollar. Thus, on May 14, the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 16,100 level.

However, thereafter, the April CPI of the U.S. was announced on May 15 local time in the U.S., and the growth rate declined from the previous month. In reaction, market participants predominantly sold the U.S. dollar, and on May 16, the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 15,900 level—the monthly low for the Indonesian rupiah. On May 20, the current account balance of Indonesia was announced for the January–March quarter period, and the figure turned out to be below the market estimate with an increased current account deficit from the October–December quarter period in 2023. However, there was little reaction to this news in the market, and the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a range between the mid-IDR 15,900 level and the upper-IDR 15,900 level. Also, on May 22, the central bank of Indonesia held a monetary policy meeting and decided to maintain its policy interest at the existing level, as had been anticipated in the market, to which market participants reacted only to a limited extent. Thereafter, pressure to sell the Indonesian rupiah strengthened based on actual demand toward the end of the month. Under such circumstances, the Indonesian rupiah continued gradually depreciating against the U.S. dollar. Thus, on May 30, the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 16,100 level.

2. Outlook for This Month

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

The U.S. dollar/Indonesian rupiah exchange rate continues to fluctuate following factors related to the U.S. However, the trend in the U.S. dollar/Philippine peso exchange market has been in line with the view expressed by the central bank of Indonesia at the time of its April meeting that the U.S. dollar/Indonesian rupiah exchange rate would remain stable, fluctuating at around the IDR 16,200 level, in the second quarter of 2024. At its meeting held in May, the central bank of Indonesia expressed its view that the U.S. dollar/Indonesian rupiah exchange rate is to remain stable in the times ahead; however, it maintains the attitude to stabilize the foreign exchange market through interventions. Thus, as has been the case so far, the central bank is not likely to accept excessive depreciation of the Indonesian rupiah.

Toward the end of May, the Indonesian rupiah depreciated, and the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 16,200 again, due to growing pressure to sell the Indonesian rupiah based on actual demand. However, the depreciation of the Indonesian rupiah has slowed down at the upper-IDR 16,200 level, as observed at the middle and end of April. Therefore, the lowest rate for the Indonesian rupiah is likely to be around the IDR 16,300 level.

In the times ahead, the central bank of Indonesia is expected to intervene in the foreign exchange market in order to stabilize the U.S. dollar/Indonesian rupiah exchange market, if the U.S. dollar continues to appreciate, for example, based on a further decline in expectation for policy interest rate cuts. However, if the U.S. dollar/Indonesian rupiah exchange rate clearly exceeds the IDR 16,300 level, it is possible for the central bank of Indonesia to raise its policy interest rate further.

The U.S. dollar/Indonesian rupiah exchange rate is expected to continue fluctuating based on factors related to the U.S. dollar. However, given that the priority of the central bank of Indonesia is the stability of the currency, the Indonesian rupiah is not likely to depreciate much further in the times ahead. The Indonesian rupiah is therefore forecast to remain stable in June.

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

Philippine Peso – June 2024

Expected Ranges	**Against the US$: PHP 57.00–59.50**
	Against the yen: PHP 0.360–0.385

1. Review of the Previous Month

In May, the U.S. dollar/Philippine peso exchange rate fluctuated in both directions, renewing the lowest rate in the year for the Philippine peso.

At the beginning of the month, the U.S. dollar/Philippine peso exchange market opened trading at the upper-PHP 57 level. In the first week of the month, the April employment statistics of the U.S. were released with weaker figures than expected, which led long-term interest rates in the U.S. to fall significantly. This reversed the global trend to buy the U.S. dollar. Following this trend, the U.S. dollar/Philippine peso exchange rate also fell to the lower-PHP 57 level. From May 7, major economic indices of the Philippines (price inflation, trade statistics, foreign currency reserves, unemployment ratio, and GDP) were intermittently released. In general, these figures confirmed the steady economic growth of the Philippines, and this kept the Philippine peso stable at the lower-PHP 57 level.

In the middle of the month, market participants bought back the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate rose from the lower-PHP 57 level to the upper-PHP 57 level. Following the same trend, the U.S. dollar/Philippine peso exchange rate once approached the PHP 58 level—a psychological turning point. However, market participants remained cautious about the rising exchange rate. Thus, the U.S. dollar/Philippine peso exchange rate hovered around the same level and eventually declined. Thereafter, the U.S. dollar/Philippine peso exchange rate returned to the lower-PHP 57 level and continued fluctuating in both directions, waiting for the monetary policy meeting to be held by the central bank of the Philippines on May 16. At that meeting, the policy interest rate was maintained at the existing level as had been anticipated by market participants. However, the remark by the governor of the central bank of the Philippines, Eli Remolona, attracted substantial attention in the market, as he moved away from a hawkish attitude and revealed a possibility to cut the policy interest rate by up to 0.50% before the end of 2024. In reaction, the Philippine peso started to depreciate against the U.S. dollar again.

At the end of the month, the U.S. dollar/Philippine peso exchange rate reached the upper-PHP 57 level based on the above remark made by said governor of the central bank of the Philippines. On May 22, the U.S. dollar/Philippine peso exchange rate finally exceeded the PHP 58 level, which had never happened previously, although the exchange rate approached this level several times in the past. The U.S. dollar/Philippine peso exchange rate thus easily exceeded what was considered a resistance line. Thereafter, the U.S. dollar/Philippine peso exchange rate continued fluctuating at the lower-PHP 58 level. Toward the very end of the month, the U.S. dollar/Philippine peso exchange rate continued rising, fluctuating in accordance with long-term interest rates in the U.S., and it reached the upper-PHP 58 level, renewing the highest rate in the year for the U.S. dollar against the Philippine peso. Monthly trading in May closed at this level.

2. Outlook for This Month

In June, the U.S. dollar/Philippine peso exchange rate is forecast to continue rising.

In May, the one-sided appreciation of the U.S. dollar that had been observed previously was somewhat adjusted. However, once market participants sold the U.S. dollar to some extent, the U.S. dollar was bought back again. During such a process, the U.S. dollar/Philippine peso exchange rate rose further and reached the PHP 58 level, intermittently renewing the highest rate in the year for the U.S. dollar against the Philippine peso. Thus, the U.S. dollar/Philippine peso exchange rate exceeded the psychological turning points—the PHP 57 level in April and the PHP 58 level in May.

The U.S. dollar/Philippine peso exchange rate is currently at its highest level in approximately a year and six months since November 2022. In 2022, the U.S. dollar/Philippine peso exchange rate started to decline after reaching the lower-PHP 59 level. However, under the current conditions, there are few factors for the Philippine peso to rally.

The central bank of the Philippines made several remarks to give warning to the market by stating that the central bank was ready to tackle excessive fluctuations in the foreign exchange market. On the other hand, the central bank also revealed that there had been discussion on a policy interest rate cut before the end of 2024, which can be done as early as August. Such a remark can be considered a factor to weaken the Philippine peso. The central bank of the Philippines is thus facing a difficult challenge controlling both the economic conditions and inflation levels.

The central bank of the Philippines did not actively react against the depreciation of the Philippine peso observed at the end of May. If this remains unchanged, it is possible for the U.S. dollar/Philippine peso exchange to reach the PHP 59 level.

The U.S. dollar/Philippine peso exchange rate is expected to continue fluctuating following global trends in the U.S. dollar market, reacting to figures in the U.S. economic indices and movements of long-term interest rates in the U.S. At this point, there has not been a new resistance line for the U.S. dollar/Philippine peso exchange rate. That would depend on actions taken by the central bank of the Philippines, whether only keeping the U.S. dollar/Philippine peso exchange rate from rising excessively or taking bold action to significantly change the fluctuation range of the exchange rate. Market participants should thus carefully observe changes in the depreciation of the Philippine peso around the time of the Federal Open Market Committee (FOMC) meeting scheduled for the middle of June as well as the release of the dot plot as discussed and revised at the FOMC meeting.

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

Indian Rupee – June 2024

Expected Ranges	**Against the US$: INR 82.80–83.70**
	Against the yen: JPY 1.83–1.96

1. Review of the Previous Month

In May, the Indian rupee appreciated slightly against the U.S. dollar, but the U.S. dollar/Indian rupee exchange rate steadily remained above the INR 83 mark.

In May, the U.S. dollar/Indian rupee exchange market opened trading at around the mid-INR 83 level. At the beginning of the month, the Indian rupee weakened against the U.S. dollar due to growing upward pressure on the U.S. dollar. Thus, the U.S. dollar/Indian rupee exchange rate exceeded the mid-INR 83 level again. On the other hand, at this level, there were some large-scale transactions based on actual demand as well as foreign exchange market interventions through U.S. dollar-selling and Indian rupee-buying by the Reserve Bank of India (RBI), which kept the Indian rupee from depreciating excessively, with the U.S. dollar/Indian rupee exchange returning to the previous level. In the middle of the month, the U.S. dollar/Indian rupee exchange rate remained low, fluctuating within a narrow range. However, toward the end of the month, the U.S. dollar/Indian rupee exchange rate started to rise gradually again and temporarily approached the INR 83 level—a psychological turning point. Thereafter, the RBI intervened in the foreign exchange market through U.S. dollar-buying and Indian rupee-selling in order to keep the Indian rupee from depreciating further. Thus, the U.S. dollar/Indian rupee exchange rate generally stabilized thereafter, approaching the INR 83 mark, while rallying slightly. In the end, trading closed at the lower-INR 83.10 level (as of May 27).

The BSE SENSEX once exceeded the 75,000 level at the beginning of the month, approaching the highest level in the year, partially thanks to expectation for the new government under the re-elected Narendra Modi. Thereafter, market participants sold stocks to take profits, and the BSE SENSEX fell below the 72,000 level. Yet, at this level, the index did not fall further and rallied to continue rising. Toward the end of the month, the index renewed its highest level in the year once again. In terms of investment capital inflow, in May alone there was a net sell from foreign investors in the Indian stock market, as there were many profit-taking transactions. However, there was an increasing net buy pressure from the middle of the month, and, in general, foreign investors were not so actively selling Indian stocks.

In terms of the economic indices of India, the April manufacturing industry and service industry Purchasing Managers' Index (PMI) both recorded a slight decline from previous figures. The April Consumer Price Index (CPI) remained stable at +4.83% year-on-year, with a slight decline from +4.85%—the previous result. The April trade balance revealed an increased trade deficit. With the constant trade deficit, the Indian rupee remains a currency to sell.

2. Outlook for This Month

In June, the U.S. dollar/Indian rupee exchange rate is forecast to remain stable at the INR 83 mark, while fluctuating in both directions and remaining at a high level.

In June, the U.S. dollar/Indian rupee exchange rate is forecast to continue fluctuating in both directions while remaining high, at the INR 83 mark. In May, the U.S. dollar/Indian rupee exchange rate exceeded the INR 83 level. However, due to transactions based on actual demand, the exchange rate did not rise further. On the other hand, the RBI continues to intervene in the foreign exchange market in order to support the Indian rupee when the U.S. dollar/Indian rupee exchange rate approaches the INR 83 mark, in response to which the exchange rate rallies. While also remaining cautious about excessive appreciation of the Indian rupee, the RBI maintains good control over the exchange rate. Under such circumstances, the RBI is expected to continue keeping the Indian rupee from depreciating excessively. Thus, the Indian rupee is forecast to remain stable, exceeding the INR 83 mark.

The April CPI recorded a slight decline from the previous figure. At its monetary policy committee (MPC) meeting held in April, the RBI kept its monetary policy stance unchanged (continued policy interest rate hikes to fight against inflation), thus remaining cautious against inflation. Even though the inflation rate is currently approaching the inflation target of 4%, there were some votes against the current policy arguing for interest rate cuts, as was the case at the February meeting. Under such circumstances, the RBI may start considering policy interest rate cuts in the second half of the year.

In terms of investment capital flow in May, there was a net sell in the Indian stock and bond market because of profit-taking transactions. However, from the middle of the month, there was pressure for a net buy, confirming the strength of the market. The Indian rupee is still most likely to start appreciating against the U.S. dollar in the second half of the year, as the U.S. will enter a phase of policy interest rate cuts. However, it is unlikely for the pressure to sell the U.S. dollar to increase in the overall market in an accelerated manner. On the contrary, the Indian rupee may start depreciating again, with some foreign exchange market interventions by the RBI as well as transactions to sell the Indian rupee based on actual demand. On the other hand, if market participants expect the Federal Reserve Board (FRB) to raise its policy interest rate again in response to the inflation level in the U.S., it is possible for the overall market trend to change significantly (with accelerating pressure to buy the U.S. dollar), of which market participants should remain cautious. Market participants should also remain attentive of rising volatility in the market, as there will be multiple key events toward the end of the year, including the Presidential election in the U.S.