

Mizuho Dealer's Eye

July 2024

U.S. Dollar	2	Chinese Yuan	21
Euro	6	Singapore Dollar	23
British Pound	10	Thai Baht	25
Australian Dollar	12	Malaysian Ringgit	27
Canadian Dollar	14	Indonesian Rupiah	29
Korean Won	16	Philippine Peso	31
New Taiwan Dollar	18	Indian Rupee	33
Hong Kong Dollar	19		

Mizuho Bank, Ltd.

Global Markets Sales & Trading Department

U.S. Dollar – July 2024

Expected Ranges

Against the yen: JPY155.50–165.50

1. Review of the Previous Month

After opening June trading around 157.20 yen, the dollar/yen pair then topped its end-of-April high of 160.24 yen, with the yen falling to its lowest level against the dollar since 1986.

The US had released some weak indicators at the end of May (consumer spending and the Chicago PMI) so the pair moved bearishly at the start of June as US interest rates fell. The US May Manufacturing ISM Report on Business then dropped below market expectations, while the ISM Manufacturing New Orders index slumped to its lowest level since June 2022, so the greenback was sold further as US interest rates weakened. On June 4, the US April JOLTS Job Openings figure also dipped below forecasts to hit its lowest level since 2021, with the currency pair then sliding temporarily to the mid-154 yen mark on reports that the Bank of Japan (BOJ) would trim its Japanese government bond (JGB) purchases when it met in June. The US released a worse-than-expected May ADP National Employment Report on June 5, though the May Non-manufacturing ISM Report on Business was up on expectations. BOJ governor Kazuo Ueda then confirmed the aforementioned reports about the BOJ's bond purchases, but BOJ board member Toyooki Nakamura then said it would be appropriate for the BOJ to taper its bond buying over time, so yen interest rates fell and the dollar/yen pair's slide was arrested. The US May employment data was released on June 7. At +272,000, the nonfarm payrolls data was up sharply on market forecasts (+185,000), so US interest rates surged and the currency pair jumped from the lower-155 yen level to top 157 yen.

In the week beginning June 10, a mood of risk aversion swept European currencies when France's parliament was dissolved after a far-right party made sweeping gains in European parliamentary elections, though the impact on the dollar/yen pair was muted. The pair weakened to the upper-155 yen mark again on June 12 after the US CPI data swung lower, though it then rallied to 157 yen as the greenback was bought after the FOMC's dot chart was revised upwards again (to a central value of 5.125% by the end of 2024 and one rate cut within the year). At its closely-watched meeting, the BOJ announced it would reduce its purchases of long-term JGBs by an appropriate amount going forward, as widely reported beforehand. However, it said it would wait until the July meeting to "decide on a detailed plan for the reduction of its purchase amount during the next one to two years or so," with the dollar/yen pair then climbing to 158 yen.

There was a lack of movement in the first half of the week beginning June 17 owing to a US holiday. During this time, Cleveland FRB president Loretta J. Mester said she thought "the risks to inflation are still on the upside," while Minneapolis FRB president Neel Kashkari said the FRB would need "more evidence to convince us that inflation is well on our way back down," so the dollar remained firm. The US released a worse-than-expected May retail sales indicator on June 18. In the early morning of June 21, though, the US Treasury Department placed Japan back on its currency manipulator "monitoring list" in its biannual Report on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States. As concerns about an intervention faded for a time, the investors pushed the yen to its lowest point against the dollar in two months.

In the week beginning June 24, the BOJ struck a hawkish tone when its Summary of Opinions for the June meeting discussed the "upside risks to prices" and how the BOJ would raise its policy rate "if deemed appropriate."

However, the yen was pushed down by the end-of-month supply and demand flow, so the dollar/yen pair topped 160 yen. With the pair's losses since the May intervention now pared back, it subsequently hit its highest level since 1986.

2. Outlook for This Month

The yen will continue to slide in July, with the dollar/yen pair set to hit new highs and edge upwards despite concerns of an intervention.

The currency pair topped 160 yen for the first time in two months late June after the US Treasury Department placed Japan on its "monitoring list" of currency manipulating countries, but with Japan hitting two of the three criteria for entry on the list ("a trade surplus with the US of at least \$15 billion" and "a current account surplus that is at least 3% of GDP"), the April–May interventions were not the main reasons behind this move. The Treasury recognized that Japan had not intervened to sell its own currency, with these exceptional circumstances explaining why the intervention did meet the criteria for currency manipulation, but the yen was nonetheless sold at a faster pace thereafter, a sure sign of deep-rooted yen bearishness. The dollar/yen pair's rise is not that fast at present, which is a further reason why concerns over an intervention are waning. The impact and durability of recent interventions also suggest the trend of yen bearishness is unlikely to change.

The FOMC upgraded its dot chart in June, with members now only expecting one rate hike this year. However, the markets are still expecting multiple rate cuts on the forecast for slowing inflation. After the blackout period ended, several FRB officials spoke about how the FRB's stance would continue to be data driven and how several months of inflation data would be needed, not just one single month. As such, if US indicators continue to swing lower like they did at the start of June, the dollar/yen pair could move weakly on falling US interest rates.

When it met in June, the BOJ announced it would taper its purchases of JGBs. At its closely-watched meeting on July 30–31, the BOJ will announce the concrete details of this tapering. However, the BOJ's Summary of Opinions contained no further details on its release at the end of June, so it seems likely the BOJ will solicit the opinions of bond market participants at a special meeting held over July 9–10 before then ascertaining how much quantitative tightening it can pursue over the next one–two years or so based on a consideration of the private-sector's capacity to absorb JGBs. It had already been reported that the BOJ will scale back its JGB purchases to around five trillion yen a month, with the yen likely to continue moving bearishly on a sense of comparison with this figure and on the actual movements of yen interest rates. However, it seems unlikely that the trend of yen bearishness will change given the dollar/yen pair's movements since the June tapering decision was made and given also how the pair has hardly been impacted at all by subsequent media speculations about the scale of this tapering. With reports also saying households will continue to sell the yen on the new NISA and so on, the yen looks set to continue trending lower in July.

Dealers' Market Forecast

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

Bullish on the dollar	10 bulls	164.50 – 156.50	Bearish on the dollar	4 bears	162.50 – 155.00
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* Ranges are central values

Miyachi	Bear	163.50 – 155.00	The dollar/yen pair's topside will be held down by deteriorating US economic sentiments, speculation about a BOJ policy shift, and concerns over an intervention by the Japanese currency authorities. The yen will also be supported by an adjustment to accumulated speculative yen short positions and an overheated cross yen.
Kawai	Bull	162.00 – 155.00	Given the results of the April–May intervention and growing concerns over a further intervention, it seems the dollar/yen pair could be adjusted by around 5–7 yen in July. However, with the BOJ and FOMC set to meet at the end of July, the pair will probably edge higher thereafter on stark Japanese/US interest-rate differentials.
Kawabata	Bull	165.50 – 155.50	The BOJ decided to scale back its JGB purchases when it met in June, with its Summary of Opinions also striking a hawkish tone. However, the yen was not bought much as a result. With the FOMC also upgrading its dot chart, the dollar/yen pair's momentum remains unchanged. Concerns of an intervention will only flare up if the pair continues rising.
Kato	Bear	162.00 – 152.00	The yen weakened to the 160 level against the dollar in 1990. However, this came after the dollar/yen pair had previously fallen from 240 yen to 120 yen. The pair had then bounced back on a correction to the US/Japan trade imbalance, with the 160 yen level by no means signifying that the pair had been over-bought. However, though the yen's recent slide was due in large part to bearish-yen factors, the pair does seem to have been over-bought in the short-term.
Yamazaki	Bull	165.00 – 156.00	The yen will continue falling on the divergent monetary policies of the US and Japan. This trend looks set to continue until the next BOJ meeting, though investors should monitor moves by the authorities and the contents of US indicators.
Yamaguchi	Bear	161.50 – 157.00	The dollar/yen pair hit a 38-year high in June, but market conditions remain unchanged, with the FRB set to cut rates within the year and the BOJ looking to tighten policy. There is a dearth of dollar-buying factors, so the pair will probably trade with a heavy topside.
Tagawa	Bull	165.00 – 157.00	The dollar/yen pair looks set to move firmly this month. Investors should monitor the scale of BOJ QT and US inflationary trends, but there are not enough factors to shift the pair's upward trend. With several policy events looming late July, the yen could weaken if left alone. If there is an intervention, this would be a good time to buy the pair.
Matsunaga	Bull	162.00 – 157.00	The US labor market and consumer spending are showing signs of a slowdown, but the fight against inflation remains unfinished. Comments by FRB officials also suggest it will take more time for inflation to slow, so the FOMC is unlikely to set out a clear path towards rate cuts when it meets in July.
Okuma	Bull	164.00 – 157.00	Many observers think the dollar/yen pair is not rising at a fast enough pace to prompt a yen-buying intervention. Given this, there seems to be growing pressure for speculative yen selling, with investors likely to test the pair's topside.
Han	Bear	163.00 – 155.00	Recent economic indicators have confirmed that the US economy is slowing. With concerns over an intervention also smoldering away, the dollar/yen pair's topside will move heavily. There will also be speculation about a BOJ monetary policy shift while the yen remains bearish.
Ito (Motoi)	Bull	165.00 – 155.00	The dollar/yen pair is only edging higher at a slow pace, so the Japanese Ministry of Finance will find it hard to intervene in the currency markets. As a result, the pair still has ample room to climb to around the mid-160 yen mark. However, this scenario is premised on the BOJ not implementing a further rate hike when it meets in July.

Suzuki	Bull	164.00 – 158.00	The US jobs market is moving firmly and the FRB is still adopting a cautious stance about the commencement of rate cuts, so the FRB's policy rate is likely to remain high for now. This marks a stark difference with Japan, where investors have already priced in a move to cut JGB purchases at the BOJ's July meeting, with the dollar/yen pair set to continue moving firmly as a result.
Nishi	Bull	163.00 – 156.00	The markets have priced in two US rate cuts this year, but FRB officials remain on guard against lowering rates and there are concerns the FRB might push back such a move. The BOJ is expected to trim its JGB purchases and lift rates when it meets in July, but there are high hurdles in the way of surpassing these expectations. The dollar/yen pair will only undergo a temporary slide.
Matsuki	Bull	165.00 – 157.00	The US economy faces several negative factors, with unemployment rising and consumer spending slowing, but the yen remains weaker when it comes to interest rates and supply and demand, so the dollar/yen pair's room on the downside will be capped. In fact, the pair will probably rise as investors buy on the dip.

Euro – July 2024

Expected Ranges

Against the US\$: US\$1.0500–1.0850

Against the yen: JPY168.50–175.00

1. Review of the Previous Month

The euro/dollar pair rose at the start of June, though it then dropped back due to European political instability and dollar bullishness on the FRB's hawkish stance.

(Week 1) The pair opened June 3 trading at \$1.0853. It then weakened to the lower-\$1.08 range on the weak final result of the eurozone May Manufacturing PMI, though it shot back to \$1.09 on falling US interest rates. The pair hit a monthly high of \$1.0916 on June 4, though it then weakened to the mid-\$1.08 mark on falling German interest rates and bearish European stock movements. With the US then releasing some weak economic indicators, the pair rallied to the upper-\$1.08 level. The ECB Governing Council implemented a -25bp rate cut when it met on June 6. However, the ECB's statement dropped no hints about further rate cuts. With the Council also upgrading its inflation outlook, the meeting was read as hawkish, so the currency pair temporarily hit the \$1.09 range. It then fell back to close trading in the upper-\$1.08 level. US interest rates soared and the dollar was bought on June 7 on the better-than-expected results of the US May employment data, with the currency pair dropping below \$1.08 for a time.

(Week 2) The euro was sold on June 10 on growing uncertainty about the political situation in France, with the currency pair sliding to the lower-\$1.07 mark. It then bounced back to the upper-\$1.07 level after ECB president Christine Lagarde expressed caution about further rate cuts. The pair then soared temporarily to the mid-\$1.08 range on June 12 after the US released some weak CPI data for May, though it swung back to the lower-\$1.08 level on the hawkish result of the FOMC meeting. It then dropped to the upper-\$1.06 level on June 14 as the markets reacted badly to falling German interest rates, bearish European stocks, and widening spreads between German interest rates and those of Europe's periphery nations.

(Week 3) The pair moved heavily in the upper-\$1.06 range on June 17 as US interest rates climbed. As French political instability eased, though, bearish European stocks rallied, so the pair bounced back to the lower-\$1.07 mark. The pair broadly moved around \$1.07 over June 18–20 on rising concerns about the fiscal deficits of EU nations. However, the pair dropped back to the upper-\$1.06 mark after the manufacturing and services data both dropped below expectations in the June PMIs (preliminary) of France and Germany released on June 21.

(Week 4) The pair moved with a heavy topside in the \$1.07 range over June 24–25. It then fell to a monthly low of \$1.0666 on June 26 on dovish comments by ECB officials and end-of-month demand for dollar buying. French stocks fell on June 27, but the pair bounced back to \$1.07 as US interest rates fell on the release of some US economic indicators. The pair dropped back below \$1.07 on end-of-month dollar buying on June 29 to then move in the upper-\$1.06 range.

2. Outlook for This Month

The euro/dollar pair will move with a heavy topside in July on the divergent monetary policies of the US and Europe, French parliamentary elections, and the subsequent political uncertainty.

The ECB Governing Council implemented a rate cut last month on falling keynote inflation. However, the headline and core figures in its quarterly inflation report were revised upwards compared to March on rising inflationary pressures related to wages and so on. ECB president Christine Lagarde and other ECB officials have indicated they will be keeping a watchful eye on the data. Based on the above, the consensus is that the ECB Governing Council will keep policy rates fixed when it meets in July. Market bets on a September rate cut have climbed above 60%, so investors will be watching to see whether the Council makes any comments about such a prospect when it meets this month. Meanwhile, a series of indicators released in June hinted that the European economy was slowing, including several national PMIs and the German May IFO Business Climate Index. Inflation is the most important factor, but growing concerns about an economic slowdown will probably spur on moves to price in rate cuts from the July ECB Governing Council meeting onwards. Deteriorating economic sentiments will be a factor behind euro bearishness.

The ECB has adopted a neutral stance and it says future rate cuts will depend on the inflation data, but the fact remains that it has already begun cutting rates. With the FOMC also indicating that the FRB will remain in hawkish mode, it seems the euro will be sold on these divergent monetary policies, with the euro/dollar pair set to trade with a heavy topside.

With regards to the political instability in France, French president Emmanuel Macron dissolved parliament on June 9, with France now facing a decisive vote on July 7. The far-right RN party has not been strongly calling for a Frexit or a withdrawal from the euro, with RN leader Marine Le Pen also saying she would not force President Macron out even if the RN won the parliamentary elections. Under these circumstances, the markets seem unlikely to be roiled by concerns about a Frexit or exit from the euro. However, investors will find it hard to actively buy the euro given uncertainty about the future.

Finally, though the dollar rose (and the euro fell) in June on the FRB's hawkish stance, the US has released some uncertain data, with the unemployment rate rising in the May employment data and inflation slowing in the May CPI figure, for example. If the US releases some similar data in July, the dollar is unlikely to undergo a one-sided rise, with this likely to support the euro/dollar pair's movements.

Dealers' Market Forecast

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

Bullish on the euro	3 bulls	1.0900 – 1.0600	Bearish on the euro	11 bears	1.0850 – 1.0500
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* Ranges are central values

Miyachi	Bear	1.0850 – 1.0400	It will be hard to actively buy the euro given the political situation in Europe and the divergent stances of the US and European authorities. There is also a risk that the euro will be weighed down by some cross-yen adjustment, so caution will be needed.
Kawai	Bull	1.0800 – 1.0600	Investors will need to monitor political events in France, but moves to test the euro/dollar pair's downside will be limited, with the pair set to move in a range on dollar factors with a lack of direction. The euro will be supported by Europe's healthy supply and demand structure, with the pair set to move somewhat bullishly.
Kawabata	Bear	1.1000 – 1.0500	The euro/dollar pair's topside will be held down by far right gains and uncertainty about the French parliamentary elections. However, when it met in June, the ECB Governing Council indicated that monetary policy would depend on the data for the time being, so the ECB is unlikely to cut rates again any time soon. Provided there is no wild fluctuations, the pair will probably rise again in a range in the medium term.
Kato	Bull	1.0900 – 1.0600	Though the ECB implemented a rate cut, the eurozone economy has proven surprisingly resilient, so the euro's room on the downside will probably be capped, despite European political instability. The ECB will probably lower rates at a very slow pace.
Yamazaki	Bear	1.0900 – 1.0500	The euro/dollar pair will move bearishly in July. Even if the ECB changes tack in future, the euro looks set to weaken on French political concerns and the decision to shift the direction of monetary policy. However, the pair's room on the downside will be capped.
Yamaguchi	Bear	1.0800 – 1.0600	Inflationary pressures are easing in Europe, with the ECB set to cut interest rates each quarter going forward. If the eurozone releases some bearish economic indicators in July, this could raise the prospect of the ECB cutting rates faster than expected, with the euro/dollar pair's topside likely to be weighed down as a result.
Tagawa	Bear	1.0850 – 1.0450	When the ECB met recently, it said future rate cuts would depend on the data, so there is no clear consensus about the timing on the next cut. The political situation in France is also a concern, with the euro/dollar pair set to continue trading with a heavy topside.
Matsunaga	Bull	1.0950 – 1.0650	ECB officials have voiced their support for multiple rate cuts within the year, but there are strong concerns that eurozone inflation might rise again, particularly in the service sector. There are also worries about French political risk but with the economy apparently bottoming out, the euro looks set to move firmly.
Okuma	Bear	1.0850 – 1.0450	There are signs that the European economy is bottoming out, though the euro/dollar pair will be weighed down by uncertainty about the political situation. If the far right continues making gains in France and elsewhere, the euro will move bearishly on risk aversion.
Han	Bear	1.0800 – 1.0400	The euro/dollar pair will continue trading with a heavy topside on European political instability and the divergent monetary policy stances of the US and Europe. The FRB and ECB have both said that future monetary policy will depend on the data.
Ito (Motoi)	Bear	1.0900 – 1.0600	The euro/dollar pair will continue to face instability until the political situation in France reaches a decisive resolution, but the pair might bounce back if things calm down once the elections are out of the way. The ECB will find it hard to take a positive stance regarding further rate hikes, with this also likely to support the euro.

Suzuki	Bear	1.0850 – 1.0500	There remain a lot of concerns, including economic trends and political instability in France and elsewhere. The ECB has begun cutting rates before the FRB, with this accommodative stance also likely to weigh down the euro/dollar pair's topside.
Nishi	Bear	1.0800 – 1.0500	It is hard to imagine the ECB continuing to cut rates after its June meeting. At the same time, political uncertainty will continue on the rise of the far right in France, for example. The National Rally party supports fiscal expansion, so if it gains more seats in parliament, the euro will probably be sold on the risk of EU fiscal discipline being shaken.
Matsuki	Bear	1.0850 – 1.0500	The ECB has adopted a cautious stance towards further rate cuts, with this likely to support the euro. However, the fact remains that it has already begun cutting rates, with the euro/dollar pair's topside also likely to be weighed down by political uncertainty emanating from France.

British Pound – June 2024

Expected Ranges

Against the US\$: US\$1.2500–1.2800

Against the yen: JPY200.00–208.00

1. Review of the Previous Month

In June, the pound had fallen by around -0.3% against the dollar by June 27.

The GBP/USD pair fluctuated sharply in the first week, though it moved flatly around \$1.2740 when the week was viewed as a whole. The greenback was sold on June 3 on the worse-than-expected result of the US May Manufacturing ISM Report on Business, though it was then bought on June 7 when the nonfarm payrolls figure in the US May employment data sharply beat expectations. The pound lacked its own distinctive factors. The UK Decision Maker Panel (DMP) survey had been released on June 6, but its one-year ahead CPI inflation expectations header was unchanged on April's survey at +2.9%. The markets had expected the figure to fall to +2.8%, with the survey instead pointing to deep-rooted concerns among corporate CFOs about the stickiness of inflation.

In the second week, the currency pair fell by around -0.2%. The dollar weakened on June 12 when the US May CPI data dropped below market expectations, with the pound also rising as a result. However, the markets were roiled by political instability in France in the latter half of the week, with this turmoil placing a lot of downward pressure on currencies outside the eurozone too. The UK's February–April unemployment rate was released on June 11, with unemployment rate hitting 4.4%, its highest rate since mid-2021. At +5.8% y-o-y, private-sector wages also saw their lowest growth in two years.

The pair continued falling in the third week. It rose after the release of the UK May CPI data, but then weakened following the BOE's policy announcement the next day. The pair's bearishness was also prompted by firm US economic indicators and hawkish comments by US officials. The UK May CPI data was released on June 19 and it was in line with market expectations at +2.0%. This was down on April's +2.3% figure, with CPI growth falling within the BOE's target (+2% y-o-y) for the first time since July 2021, nearly three years ago. However, service prices continued to grow at a fast clip at +5.7% y-o-y. The BOE's Monetary Policy Committee (MPC) met on June 20. As expected, it kept its policy rate fixed at 5.25%, but its statement and minutes revealed that some members were leaning towards a rate cut in August.

Sterling rallied by +0.5% against the dollar at the start of the fourth week. However, the greenback was then bought towards the month's end. With uncertainty also rising about the first round of voting in the French general election at the weekend, the pair's gains were pared back sharply on June 26.

2. Outlook for This Month

The GBP/USD pair looks set to move bearishly in July. The pair will continue to be weighed down by expectations for a BOE rate cut when it meets in August. Furthermore, uncertainty about France's political and financial situation is becoming a risk factor, not only for the eurozone but for all of Europe's financial markets, including the UK.

However, the pound is moving firmly against other major currencies like the yen and euro. In June, the pound had fallen by around -0.3% against the dollar by June 27, but it had risen by around +1.1% against the euro and around +1.7% against the yen. Its slide against the dollar was largely due to global dollar bullishness on firm US indicators and hawkish comments by US officials, while sterling's ongoing firmness against other major currencies is probably because investors believe the BOE will leave its policy rate at highs given the stickiness of UK services inflation.

A glance back at the June BOE meeting certainly reveals more dovish elements than envisaged, In particular, the minutes show how some members believed that “the upside news in services price inflation relative to the May Report did not alter significantly the disinflationary trajectory that the economy was on,” with the decision not to cut rates “finely balanced” for these members. Until 3Q 2024, the GBP/USD pair's topside will be held down by speculation about an early BOE rate hike.

However, UK services inflation will probably remain high given the peculiarities of the UK's industrial structure (the share of the labor-intensive service sector is noticeably higher compared to other developed nations) and labor market bottlenecks (new influxes of low-wage workers have slowed since Brexit). At the same time, the BOE will probably have to keep its policy rate at a high level compared to other countries, with sterling likely to be supported again by speculation that the BOE will keep policy rates high from 4Q 2024 onwards.

The UK will hold a general election on July 4. Opinion polls suggest the Labour Party will win handsomely and take the reins of power from the Conservative Party, with surprises looking unlikely. However, all the Labour Party's pledges to improve things (such as National Health Service reform and immigration control) will require funding. Though the Shadow Chancellor Rachael Reeves has ruled out tax hikes, questions remain about how she will obtain this funding. The markets will probably focus on the UK's finances once again after the election.

Australian Dollar – July 2024

Expected Ranges

Against the US\$: US\$0.6550–0.6760

Against the yen: JPY102.50–108.50

1. Review of the Previous Month

The AUD/USD pair fell to a monthly low of \$0.6576 mid-June. It traded in a range thereafter without reaching the \$0.67 range. It mainly moved around \$0.66. The greenback was sold on June 3 on the worse-than-expected US May Manufacturing ISM Report on Business, with the currency pair rising to around \$0.6690. It then dropped back on June 4 as the Australian dollar was sold when Australia's 1Q current account data surprised observers by slipping into the red. Australia's 1Q GDP data was released on June 5. The data was down slightly on forecasts, but the previous quarter's data was revised upwards, so the Australian dollar strengthened. However, the pair then tumbled to \$0.6627 as investors bought the US dollar on the firm results of the US May Non-manufacturing ISM Report on Business. The pair plummeted to \$0.6579 for a time on June 7 as US interest rates rose on the strong results of the US May employment data.

This trend continued on June 10, with the pair dipping to \$0.6576. The greenback then fell sharply on June 12 when the US May CPI data fell below expectations. The AUD/USD pair climbed from around \$0.6610 to \$0.6705. The FOMC then decided to keep its policy rate fixed at 5.25–5.5%, with FOMC members also downgrading their 2024 rate cut projections from three cuts the last time around to just one cut (-25bp) now. The US dollar was bought back on this hawkish revision, with the currency pair moving around \$0.6660. Australia's May employment data was released on June 13, with the number of full-time workers up on forecasts and the unemployment rate down on the previous month. Though the data pointed to the firmness of the labor market, it fell within the grounds of market expectations and supported their speculations about rate cuts from 2025 onwards, so the data's impact was minimal. The greenback was sold when the US May PPI data dropped below expectations, with the AUD/USD pair rising temporarily to \$0.6675, though it soon fell back.

Bonds were bought on June 17 as French political instability led to risk aversion, with Australian interest rates also falling and the currency pair sliding to \$0.6586. The RBA kept the cash rate fixed when it met on June 18. Its statement mentioned inflation risk again, while RBA governor Michele Bullock also revealed in her press conference that the board had discussed rate hikes, so the Australian dollar was bought. The greenback then was bought on June 21 after the US June Manufacturing and Services PMIs both topped expectations, with the currency pair weakening to around \$0.6640 as a result.

The pair was sold from the mid-\$0.66 mark to \$0.6627 on June 25, though the Australian dollar was then bought as US interest rates fell after San Francisco FRB president Mary C. Daly said that "future labor market slowing could translate into higher unemployment," with the AUD/USD pair rising to around \$0.6660. Australia's May monthly CPI data was released on June 27, with the monthly CPI figure up 4% y-o-y (April: 3.6%) and the trimmed mean up 4.4% (April: 4.1%). Consequently, market bets on a 2024 rate hike rose to around 40%. With yields on Australian government bonds rising sharply, the currency pair temporarily strengthened to \$0.6688. The dollar/yen pair hit 161 yen towards the month's end, with this marking its highest level since 1986. Concerns grew about more interventions by the Japanese authorities, with US treasuries also sold (and interest rates rising), so the greenback

was bought and the currency pair fell to the mid-\$0.66 mark. It then closed the month back in the upper-\$0.66 range.

2. Outlook for This Month

The AUD/USD pair's range might edge up slightly in July. Chinese stocks are moving bearishly and geopolitical risk has flared up again, but July marks the start of the new fiscal year in Australia, so consumption could be buoyed somewhat by a rise in the minimum wage, income tax cuts, and system changes by the federal government, including some electricity bill subsidies. If this happens, indicators related to sentiments and consumption could show improvements, with the Australian dollar also likely to be supported by upwards pressure from inflation and interest rates. In the FOMC's recent dot chart, participants indicated that FRB rate cuts would probably take place later than originally expected. However, the RBA has left the door open for rate hikes in 2024, with the AUD/USD expected to move firmly as a result.

With the greenback sold in June on falling inflation indicators and US interest rates, the currency pair temporarily hit \$0.67. Australia's May employment data revealed that the labor market was moving relatively firmly, with the May CPI data also showing inflation accelerating to 4.4%. However, the markets had already priced in RBA rate cuts from 2025 onwards, so the environment was not conducive to further Australian-dollar buying, with the pair continuing to trade in a range as a result. Though the pair's downside edged up to \$0.6576 in June, the pair could not take root in the \$0.67 range. When it comes to gauging whether the pair's overall range will edge higher, one key point will be whether the pair can become entrenched at \$0.67.

Factors to watch out for in July include the minutes of the June RBA meeting (released Tuesday, July 2); the Australian May retail sales data and the FOMC minutes (Wednesday, July 3); the US June employment data (Friday, July 5); the US June CPI data (Thursday, July 11); the Australian June employment data (Wednesday, July 18); the US 2Q GDP data, 2Q consumer spending data, and 2Q core PCE price index (Thursday, July 25); and the US June PCE price index (Friday, July 26). At present, Australia's money markets have put the possibility of a +25bp rate hike in August at around 40%, with the figure rising to around 60% for a rate hike by September. In July, the authorities will be focused on gathering evidence about the necessity of a rate hike. As well as the aforementioned indicators, investors should also pay attention to comments by the authorities. If these point to the firmness of Australia's economy, the AUD/USD pair will probably be pushed higher.

The AUD/JPY pair is essentially moving in a range with its downside edging up at times, with the pair likely to follow in the dollar/yen pair's footsteps in July to rise from the 106 yen level to the 108 yen level.

Canadian Dollar – July 2024

Expected Ranges

Against the US\$: C\$1.3400–1.3900

Against the yen: JPY113.00–119.00

1. Review of the Previous Month

The US released some mixed economic indicators at the start of June. With uncertainty about the timing of FRB rate cuts still lingering, US interest rates fell and the US dollar moved bearishly. However, Canada then released some lackluster 1Q GDP data. As expectations for Bank of Canada (BOC) rate cuts grew, the Canadian dollar was sold, so the USD/CAD pair's downside was capped.

The US May Manufacturing ISM Report on Business was released on June 3. The indicator was below the key 50 mark for the second straight month, so the currency pair fell to C\$1.3603. The Canadian dollar was also sold when OPEC+ reached a decision on voluntary production cuts. As expected, the BOC's Monetary Policy Committee (MPC) lowered its policy rate by 25bp to 4.75% when it met on June 5. BOC governor Tiff Macklem said it would be "appropriate to lower our policy interest rate" given how inflation had eased further. Yields on 2-year Canadian government bonds dropped below 4% for the first time since February on these dovish comments, with the Canadian dollar then sold and the currency pair hitting C\$1.3741 for a time. However, with the US JOLTS Job Openings figure and new applications for unemployment insurance data both deteriorating, the pair moved with a heavy topside to drop to the mid-C\$1.36 mark on a growing sense that the US economy was slowing. The US May employment data was released on June 7, with the nonfarm payrolls figure up sharply on expectations. The average hourly wages figure also grew at a faster pace than the previous month, with the data pointing to the US economy's strength. The USD/CAD pair subsequently soared to the mid-C\$1.37 level on growing expectations that the FRB would push back the start of rate cuts. With the greenback moving bullishly, the pair hit a monthly high of C\$1.3792 on June 11. US long-term interest rates fell on June 12 when the US May CPI data dipped below expectations. This saw the currency pair sliding to the upper-C\$1.36 level. On the afternoon of the same day, the FOMC kept its policy rate fixed, as expected. With the FOMC's outlook for the economy and interest rates also striking a hawkish tone, the pair strengthened to around C\$1.373. The pair was also supported by comments by FRB officials opposing early rate cuts. The US May Producer Price Index (PPI) data was released on June 13. The data was down on expectations, thus indicating that inflation was slowing. The US then released some worse-than-expected May retail sales data on June 18, with the previous month's figure also downgraded. With crude oil prices also rising, the Canadian dollar was bought, so the USD/CAD pair moved bearishly. The pair dropped below C\$1.37 on June 21. The Canadian May CPI data was then released on June 25. The headline and core figures were both up on forecasts, with expectations for a July BOC rate cut subsequently waning. The Canadian dollar was bought and the currency pair fell to the lower-C\$1.36 level as a result. A wait-and-see mode prevailed towards the month's end ahead of the release of the US May Personal Consumption Expenditure (PCE) price index, with the pair fluctuating gently between the mid- to upper-C\$1.36 mark.

2. Outlook for This Month

The minutes to the June 5 BOC MPC meeting revealed that members had discussed waiting until July to lower rates, though the BOC eventually opted for a June rate on the results of the inflation data (which showed price pressures continuing to ease) and other economic indicators. BOC governor Tiff Macklem said the pace of rate cuts would not be as fast as the pace of rate hikes had been in 2022 and 2023. He also said that the timing of the next rate cut would depend on the data, with the BOC making a decision at each meeting, and he emphasized that the BOC would continue to play close attention to the supply and demand balance, inflationary expectations, wage growth, and corporate price setting. The governor also said Canada was moving steadily towards a soft landing, with the unemployment rate not rising sharply and inflation returning to the BOC's target range, though he said the unemployment rate might rise again going forward.

The markets are expecting a minimum of around two rate cuts by the end of year. Canada's May CPI data was up on forecasts, with market expectations for a rate cut at the July 24 meeting now waning, but Canada's employment data (July 5) and CPI data (July 16) will be released before the meeting and these could significantly shift these rate-cut expectations, so caution will be needed.

The FOMC kept its policy rate fixed, as expected, with FOMC members only projecting one rate cut this year in the closely-watched outlook for interest rates and the economy. The accompanying statement said inflation would move steadily closer to the 2% target over the next few months.

In his press conference, FRB chair Jerome Powell said the FRB would need to monitor the data to confirm that inflation was moving sustainably towards 2%.

The US has also released a number of mixed indicators. Several employment-related indicators had shown notable signs of weakness, but the strong May employment data pointed to the firmness of the economy, for example.

Many market participants think the FRB will lower rates twice this year, though some observers are predicting zero rate cuts.

With inflation also accelerating in Canada, the FRB and BOC are both growing more concerned about inflationary pressures. Amid lingering uncertainty about the timing of rate cuts in Canada and the US, the USD/CAD pair looks set to continue swinging to and fro in July. The greenback will probably face upwards pressure from a number of hawkish comments by FRB officials. The currency pair is expected to move between C\$1.34–1.39 this month.

Korean Won – July 2024

Expected Ranges

Against the US\$: KRW 1,360–1,410

Against the yen: JPY 11.23–11.98 (KRW100)

1. Review of the Previous Month

The USD/KRW pair moved firmly in June. The pair opened the month trading at KRW1382.0. The won then moved firmly as US interest rates trended lower. The RMB then rose on some bullish economic indicators. The won was also bought on the bearish results of the US Manufacturing ISM Report on Business. With funds also flowing into South Korean stock markets, the currency pair fell to the lower-KRW1360 mark at the weekend.

The greenback then began rising at the start of the next week on June 10. The US released some better-than-expected employment data on June 7, with the pair opening the week at KRW1379.5 as the US dollar was bought on rising US interest rates. The pair remained firm thereafter, though its movements were kept in check by concerns about the midweek release of the CPI data and the FOMC meeting. US interest rates fell sharply on June 12 when the US CPI data confirmed that inflation was slowing. US rates stopped sliding after the FOMC meeting, but the pair's comeback was muted and it then tumbled to the mid-KRW1360 level on June 13. However, the yen weakened after the Bank of Japan (BOJ) meeting on June 14, with the won also pulled lower, so the pair rose again to just below KRW1380.

With the euro also weakening on concerns about political instability in Europe, the pair opened the following week trading at the lower-KRW1380 mark. The pair continued to float around KRW1380 for a few days after, but with Switzerland's central bank unexpectedly cutting rates on June 20, the greenback moved bullishly and the currency pair rose to KRW1393.0 for a time on June 21. Concerns of an intervention grew when the pair approached the key KRW1400 level, with the pair then moving in the upper-KRW1380 range.

This trend continued the following week, with the pair moving firmly around KRW1390 with an eye on US interest rate movements. With the yen and RMB moving bearishly, the won was also pulled lower, with the USD/KRW pair hitting a monthly high of KRW1395.0 on June 27.

2. Outlook for This Month

The USD/KRW pair is expected to continue moving firmly in July.

With the dollar moving bullishly, the pair hit KRW1390 for the first time in around two months in June and it then chased the key KRW1400 level. There are several reasons behind the won's bearishness, but external factors are playing a big role. The won has been dragged down by euro weakness as policy rates are lowered across Europe, with the won also impacted by the bearishness of the yen, the RMB and other Asian currencies. The won is unlikely to stage a comeback while these external factors are still in place. The situation in Europe could become even more unstable on political uncertainty. It is also hard to see yen bearishness disappearing any time soon given the BOJ's movements. The USD/KRW pair looks set to continue moving firmly in the upper-KRW1300 range in July. The markets will be focusing on KRW1400, given how the South Korean authorities made verbal interventions the last

time the pair hit this mark, though attempts at this level cannot be ruled out.

Turning to real demand, and South Korea's exports remained strong in May, with the export amount up +11.7% year-on-year. At +54.5% y-o-y, exports of semiconductors (South Korea's main export item) were particularly brisk, with other IT items also pulled up by AI-related demand. The trade balance also remained in the black for the 12th straight month. Real-demand trends have only had a limited impact on the USD/KRW pair's movements recently, but if the aforementioned external factors show signs of improvement, real demand could be one factor pulling the won higher.

New Taiwan Dollar – July 2024

Expected Ranges

Against the US\$: NT\$32.00–33.00

Against the yen: JPY4.75–5.00

1. Review of the Previous Month

The USD/TWD pair rose in June.

The pair opened the month trading at TWD32.400 on June 3. The US April PCE data was released at the end of May and the US ADP National Employment Report on June 6, with both indicators dropping below forecasts. As US interest rates fell sharply, the greenback was sold and the currency pair temporarily weakened to TWD32.245.

The US May employment data was released during overseas trading time on June 7. The nonfarm payrolls figure and the average wages data were both up on expectations, so the US dollar was bought back and the pair climbed to around TWD32.40. With Taiwanese stocks then hitting record highs, overseas investors pumped funds into Taiwan. With the US May CPI data also moving bearishly, investors stopped buying the greenback. When it met during overseas trading time on June 12, the FOMC lowered its rate-cut projections from three to just one cut during 2024. The Central Bank of the Republic of China (Taiwan) then lifted its deposit reserve requirement ratio on June 13. The USD/TWD pair was sold and bought on these monetary policy movements to float around TWD32.30.

Taiwanese stocks began falling on cautiousness about higher prices in the latter half of the month. As overseas investors sold Taiwanese equities, the currency pair rose to TWD32.40. With a US presidential debate looming during overseas trading time on June 27, the RMB was sold on concerns the candidates would adopt a hardline stance towards China, with the USD/TWD pair strengthening as Asian currencies were sold. The Taiwan was sold further towards the month's end, with the pair rising to move firmly at the mid-TWD32.50 mark.

2. Outlook for This Month

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

Though US inflationary indicators moved bearishly in June, US employment indicators moved bullishly. Furthermore, though the FOMC lowered its rate-cut projections for 2024, the Central Bank of the Republic of China (Taiwan) lifted its deposit reserve requirement ratio, so there was no huge divergence when it came to monetary policy. During this time, the currency pair floated just below TWD32.40. However, Asian currencies faced selling pressure from a bearish RMB towards the month's end, with the Taiwan dollar also sold when overseas investors sent funds back home, so the USD/TWD pair strengthened.

The pair looks set to move flatly in July. The FOMC is scheduled to meet in the US, but this won't take place until during overseas trading time at the month's end, and no monetary policy meeting is scheduled in Taiwan. As such, it is hard to imagine the pair fluctuating sharply on monetary policy. Taiwanese exports look set to bounce back as the semiconductor cycle revives, but overseas investors are also sending a lot of funds back home, so the pair will see a mix of selling and buying. Given this, it seems the pair will move flatly with a lack of direction.

Hong Kong Dollar – July 2024

Expected Ranges **Against the US\$: HK\$ 7.7900–7.8250**
Against the yen: JPY 20.20–20.80

1. Review of the Previous Month

Hong Kong dollar spot exchange market in June

The HKD spot strengthened towards 7.8 handle from 7.82 level, as the dividend payouts flow and half year-end seasonality boosted HKD demand. While the Hang Seng Index was fluctuating around 18,000 level, the strong Southbound Stock Connect flow continued to support the HKD spot. Against the backdrop of A-H shares premium and limited investment channels in the onshore China market, mainland Chinese investors showed a keen interest in outbound investments, pouring capital into HK stock markets. Externally, expectations for Fed's rate cuts were anchored by softening data, resulting in the jump in HKD forward curve. With tighter HKD liquidity conditions, carry trade returns of long USD/HKD spot dipped to around 2 points per day. IPO activities picked up but overall conditions remained relatively quiet compared to previous years. The HKD forward outright buying flow from corporate continued below 7.76 level to support the back-end curve. On the macro side, retail sales sank due to increasing cross-border consumption activities and a slow recovery from inbound tourism following the HKD appreciation.

Hong Kong dollar interest rate market in June

The HKD HIBOR curve climbed gradually towards half year end, with 1-mth and 3mth up 10bps to 4.6% and 4.8%, respectively. The half year-end seasonality and dividend payouts soaked up liquidity while the impact was less pronounced compared to previous year due to earlier preparations for the HKD funding squeeze. Bankers. The upward sloping HKD HIBOR curve, with a positive 1x3 month spread, was driven by expectations that the Fed would not cut rates at its July meeting. The HKMA aggregate balance remained largely unchanged at near HKD 45bn without FX intervention. The relatively subdued IPO activities were largely muted in the HKD rates markets. In the medium term, the HKD IRS curve fell as the soft US CPI data anchored Fed's rate cut expectations. As a result, the HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD HIBOR) widened further to +80bps from +50bps.

2. Outlook for This Month

Hong Kong dollar spot exchange market in July

Considering the increasing expectations for Fed's rate cut by year-end, the HKD spot is unlikely to hit its weak-side convertibility undertaking at 7.85 level. Risks of HKD are skewed to the upside in the HKD dividend payouts season until August-end. With limited investment channels in the onshore China market, the strong Southbound Connect equities inflow as well as the Wealth Connect inflow should provide support to the HKD spot. Foreign investment outflow is expected to remain limited due to optimism over new stimulus measures and reforms to be discussed at the Third Plenum meeting in July. Additionally, favorable policies from Chinese regulators and the

improving relationship between Hong Kong and Middle Eastern countries should contribute to an improvement in HK IPO activities in the second half of 2024 and the stabilization of the HKD spot market.

Hong Kong dollar interest rate market in July

Front-end HKD rates are expected to come off as half-year end seasonality waned in July, but the downside should be limited due to ongoing dividend payouts flow. Under the USD-HKD peg, the HKD rates are unlikely to fall significantly before the Fed indicates the timing for its rate cuts. The pick-up in IPO activities and HKD investments flow should pose upside risks for HKD rates. However, HKD rates will probably trade below USD rates due to falling HKD loan demand, influenced by weak business sentiment and struggling property market.

Chinese Yuan – July 2024

Expected Ranges **Against the US\$: CNY 7.2000–7.3000**
Against the yen: JPY 21.23–22.94

1. Review of the Previous Month

In June, the U.S. dollar/Chinese yuan onshore exchange rate remained stable.

On June 3, the U.S. dollar/Chinese yuan exchange market opened trading at around the CNY 7.24 level. In the U.S., the May 2024 Manufacturing ISM[®] *Report On Business*[®] confidence index and the ADP employment statistics were announced with numerous weak figures. As a result, interest rates in the U.S. fell, encouraging market participants to actively sell the U.S. dollar. Thus, on March 4, the U.S. dollar/Chinese yuan exchange rate fell to the upper-CNY 7.23 level at some point. However, there were some market participants who bought the U.S. dollar based on actual demand, and this stabilized the U.S. dollar/Chinese yuan exchange rate.

After the Dragon Boat Festival holidays in China, the U.S. dollar/Chinese yuan exchange market opened trading at around the CNY 7.25 level on June 11. On June 12, the May Consumer Price Index (CPI) of the U.S. was announced, and the result turned out to be below the market estimate, and this encouraged market participants to sell the U.S. dollar. As a result, the U.S. dollar/Chinese yuan exchange rate fell to the upper-CNY 7.23 level. However, a Federal Open Market Committee (FOMC) meeting was held in the U.S. thereafter, and the policy interest rate and the economic outlook turned out to be more hawkish than the market estimate, which led the U.S. dollar/Chinese yuan exchange rate to return to the CNY 7.25 level on June 13, the following day.

On June 17, the U.S. dollar/Chinese yuan exchange market opened trading at the lower-CNY 7.25 level. On the same day, the May figures for the major economic indices of China were released, and some figures turned out to be below the market estimate. Furthermore, on June 20, the People's Bank of China (PBOC) announced its decision to maintain its loan prime rate (LPR) at the existing level, which led the U.S. dollar/Chinese yuan exchange rate to remain stable. The PBOC central parity rate was set at the highest level of the U.S. dollar since the end of November last year, and this led the U.S. dollar/Chinese yuan exchange rate to rise and renew its highest level since the beginning of the year, at the CNY 7.26 level.

In the last week of the month, the PBOC central parity rate was set toward a weaker Chinese yuan on June 24. As there was strong pressure to sell the Chinese yuan, the U.S. dollar/Chinese yuan exchange rose to the upper end of the daily fluctuation range (2%). As of June 27, when this article was being written, the U.S. dollar/Chinese yuan exchange rate has been fluctuating at the upper-CNY 7.26 level.

2. Outlook for This Month

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

Market participants remain pessimistic about the economic outlook, having seen the 10-year government bond yield of China reach its lowest level since 2002, on June 26. The Chinese monetary authorities have introduced economic support in terms of policy measures mainly in the real estate sector. However, the effect of such effort has

not become visible in the economic data just yet. The third plenary session of the 20th Central Committee of the Chinese Communist Party is scheduled for July 15–18, at which economic policy is expected to be announced. However, it is unlikely for the announcement to be significant enough to change the existing market trend. The Chinese monetary authorities are thus forecast to maintain its “moderate” monetary policy, maintaining downside pressure on the Chinese yuan. Transactions in security investment and direct investment are likely to be affected not only by weakness in domestic demand but also by the customs policy of Western countries toward China. Thus, it is difficult for market participants to find reasons to buy the Chinese yuan.

Even though there are signs of falling prices in the U.S., whether the policy interest rate will be cut will depend on future economic indices. At the current moment, the policy interest rate cut is expected to start in the second half of the year. If the probability of this scenario increases, downward pressure on the U.S. dollar may grow to a considerable extent, pushing down the U.S. dollar/Chinese yuan exchange rate. However, market participants should probably continue checking economic indices and the attitude of the Federal Reserve Board (FRB) for a while.

Toward the end of June, downward pressure on the Chinese yuan is strengthening. Under such circumstances, the PBOC central parity rate has been rising gradually, following which the trading rate is rising to the upper end of the daily fluctuation range, which is 2%. Even though it is unlikely for the Chinese yuan to depreciate rapidly, the U.S. dollar/Chinese yuan exchange rate is most likely to remain at around the upper end of the daily fluctuation range, as has been the case so far.

Singapore Dollar – July 2024

Expected Ranges

Against the US\$: SG\$ 1.3300–1.3800

Against the yen: JPY 114.00–122.00

1. Review of the Previous Month

In June, the Singapore dollar depreciated against the U.S. dollar.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange market opened trading at the lower-SGD 1.35 level. A series of U.S. economic indices were released at this point with weak figures, such as the May 2024 Manufacturing ISM[®] Report On Business[®] confidence index of the U.S. announced on June 3. In reaction, market participants started to actively sell the U.S. dollar, and thus the U.S. dollar/Singapore dollar exchange rate fell to the mid-CNY 1.34 level, waiting for the release of the employment statistics of the U.S. On June 7, such employment statistics were released with figures stronger than the market estimate, and this encouraged market participants to buy the U.S. dollar. Consequently, the U.S. dollar/Singapore dollar exchange rate rose sharply from the lower-SGD 1.34 level to the lower-SGD 1.35 level.

After the weekend, the U.S. dollar/Singapore dollar exchange rate fluctuated within a narrow range at the lower-SGD 1.35 level on June 10, as the Federal Open Market Committee (FOMC) meeting and the announcement of the May Consumer Price Index (CPI) of the U.S. were scheduled in the same week. On June 11, market participants temporarily sold the U.S. dollar in order to avert risks due to growing political certainty in France. However, this affected the U.S. dollar/Singapore dollar exchange market only to a limited degree. On June 12, market participants confirmed a slowdown in inflation based on the results of the May CPI in the U.S., and this subsequently led to a decline in interest rates in the U.S. Following this trend, the U.S. dollar/Singapore dollar exchange rate also temporarily fell to the lower-SGD 1.34 level in a short time. However, at the June FOMC meeting, the dot plot was revised downward to one policy interest rate cut before the end of the year, and this led the U.S. dollar/Singapore dollar exchange rate to rally to the upper-SGD 1.34 level. After the FOMC meeting, the U.S. dollar remained strong toward the weekend, and the U.S. dollar/Singapore dollar exchange climbed gradually. On June 14, the U.S. dollar/Singapore dollar exchange rate recovered to the SGD 1.35 mark.

On June 17, the market was closed in Singapore, and there were few transactions in the U.S. dollar/Singapore dollar exchange market. Market participants did not take any remarkable action thereafter, as important events had passed during the previous week, such as the FOMC meeting and the release of the inflation indices in the U.S., in addition to the fact that the market was closed in the U.S. on June 19. However, on June 20, the central bank of Switzerland decided to cut its policy interest rate, in reaction to which market participants sold European currencies and bought the U.S. dollar. The trend of U.S. dollar-buying affected Asian currencies, and the U.S. dollar/Singapore dollar exchange rate also rose to the mid-SGD 1.35 level.

On June 24, the May composite CPI of Singapore turned out to be +3.1% year-on-year, demonstrating an acceleration from the previous result. In reaction, the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.35 level. Toward the end of the month, the U.S. dollar/Singapore dollar exchange rate did not move in any direction, without new factors in the market. The U.S. dollar/Singapore dollar exchange rate ended up in fluctuating within a narrow range at around the mid-SGD 1.35 level.

2. Outlook for This Month

The U.S. dollar/Singapore dollar exchange rate is forecast to fluctuate in both directions within a narrow range in July.

In June, the U.S. economic indices were generally weak. However, at the FOMC meeting held in June, the dot plot was revised downward to one policy interest rate cut before the end of the year. Furthermore, market participants bought the U.S. dollar actively due to political uncertainty in Europe, which affected Asian currencies as well. As a result, the U.S. dollar strengthened. The FOMC is scheduled to have a meeting in July as well. Even though the May CPI of the U.S. was +3.3% year-on-year, demonstrating a slowdown in inflation, its level remains above 2%—the target rate set out by the Federal Reserve Board (FRB). Since the labor market remains strong as well, it is unlikely for the policy interest rate to be cut in July. It is also worth noting that recent remarks by FRB officials remain cautious about a policy interest rate cut, as was the case previously. Thus, the U.S. dollar is not expected to weaken significantly in July.

In Singapore as well, the Monetary Authority of Singapore (MAS) is also scheduled to have a meeting in July. The May composite CPI of Singapore was +3.1% year-on-year, and the core CPI was also +3.1% year-on-year, confirming persistent inflation. The MAS and Singapore's Ministry of Trade and Industry made a joint statement with an outlook that the core CPI would continue falling and that the decline would accelerate further in the fourth quarter of this year. However, the statement underlined concerns over upward pressure on food and energy prices. Thus, market participants should remain cautious about a resurgence of inflation. Yet, it is also worth noting that the MAS also emphasized that the existing monetary policy was sufficient to secure the stability of prices in the medium term. Thus, the MAS is likely to maintain its current monetary policy. In the U.S. dollar/Singapore dollar exchange market, there is currently no specific factor to weaken the U.S. dollar, as mentioned above. Thus, with both strong and weak figures in U.S. economic indices, the U.S. dollar/Singapore dollar exchange rate is expected to continue fluctuating in both directions.

Thai Baht – July 2024

Expected Ranges

Against the US\$: THB 36.00–37.30

Against the yen: JPY 4.20–4.40

1. Review of the Previous Month

In June, the U.S. dollar/Thai baht exchange rate did not move in any direction.

The market was closed in Thailand due to a national holiday at the beginning of the month, and the U.S. dollar/Thai baht exchange market opened trading at the upper-THB 36 level. Initially, the exchange rate remained low, as U.S. economic indices had turned out to be weak and as interest rates had fallen in the U.S. With regard to U.S. economic indices, the May 2024 Manufacturing ISM[®] *Report On Business*[®] confidence index was announced on June 3, the April numbers for the US Job Openings and Labor Turnover Survey (JOLTS) were announced on June 4, and the May ADP employment statistics were announced on June 5, all of which turned out to be weak. Furthermore, the fall of interest rates in the U.S. accelerated since the central bank of Canada decided to cut its policy interest rate on June 5. As a consequence, the U.S. dollar/Thai baht exchange rate fell to once reach the lower-THB 36 level. However, on June 7, the May employment statistics of the U.S. were released, and the number of non-agricultural employees and the average wage both turned out to be above the market estimate, even though unemployment rose. This led interest rates in the U.S. to rise sharply again, and the U.S. dollar strengthened in the overall foreign exchange market. Following this trend, the U.S. dollar/Thai baht exchange rate also rallied, climbing rapidly to the upper-THB 36 level.

In the middle of the month on June 12, the central bank of Thailand (BOT) held a Monetary Policy Committee (MPC) meeting and decided to maintain its existing policy interest rate, as had been anticipated in the market. However, the Thai baht strengthened slightly thereafter, as there was only one vote against the decision to maintain the policy interest rate at the existing level this time, whereas in the previous two meetings, there were two votes against the same decision. Thereafter, the May Consumer Price Index (CPI) of the U.S. was announced on the same day local time in the U.S., and both the headline CPI and the core CPI turned out to be below the market estimate, which encouraged market participants to actively sell the U.S. dollar. Following this trend, the U.S. dollar/Thai baht exchange rate also fell to once reach a level near the mid-SGD 36 level. However, the outcome of the Federal Open Market Committee (FOMC) meeting in the U.S. was announced thereafter, and the dot plot was revised and the median of the number of policy interest rate cuts expected before the end of the year was reduced from three policy interest rate cuts to one policy interest rate cut. In reaction, market participants bought back the U.S. dollar rapidly, and in the end, the U.S. dollar/Thai baht exchange rate returned to the level observed before the announcement of the CPI. After such violent fluctuations, the U.S. dollar/Thai baht exchange rate remained at the same level while fluctuating in both directions following the figures in the U.S. economic indices.

At the end of the month, the U.S. dollar/Thai baht exchange rate continued fluctuating from the mid-THB 36 level to the upper-THB 36 level. On June 25 and 26, the May CPI of Canada and the May CPI of Australia were announced respectively, and the results turned out to be above the market estimate. This fueled concerns over inflation in the U.S., leading the U.S. dollar to strengthen in the overall foreign exchange market. Under such circumstances, the U.S. dollar/Thai baht exchange rate rose to once approach the THB 37 level. However, the

exchange rate did not exceed the THB 37 level, partially because the May PCE price index of the U.S. was scheduled to be out on June 28. Yet, as of the time when this article was being written (8:00 p.m. on June 27), the U.S. dollar/Thai baht exchange rate has continued to be fluctuating at the upper-THB 36 level.

2. Outlook for This Month

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

At the beginning of May, the U.S. dollar/Thai baht exchange rate reached the lower-THB 37 level, renewing the highest rate for the U.S. dollar observed last year. However, the exchange rate fell thereafter, and in the middle of May, the U.S. dollar/Thai baht exchange rate reached its lowest rate in approximately two months, although the exchange rate rallied rapidly at the end of the same month. Thus, the U.S. dollar/Thai baht exchange rate currently remains high, fluctuating between the mid-THB 36 level and the upper-THB 36 level. Under such circumstances, given the trends in monetary policy in the U.S. and Thailand, the U.S. dollar/Thai baht exchange rate is expected to remain at the current level in the times ahead.

With regard to monetary policy in the U.S., an FOMC meeting was held on June 11 and 12, and the dot plot was revised and the median of the number of policy interest rate cuts expected before the end of the year was reduced. However, there has not been a significant change in the policy interest rate cuts reflected in the market. The next FOMC meeting is scheduled for the end of July. Until then, the U.S. dollar/Thai baht exchange rate is likely to continue fluctuating each time an economic index is announced. However, recent remarks by the Federal Reserve Board (FRB) officials emphasized that it would take a significant amount of time to evaluate the figures in the economic indices. Thus, in the end, it is unlikely for the current strength of the U.S. dollar to change dramatically in the near future.

In terms of domestic factors in Thailand, the BOT held an MPC meeting on June 12. At this meeting, the MPC decided to maintain its policy interest rate at the existing level, by evaluating that the current monetary policy corresponds with the long-term macro economy and stability in economy and prices, while pointing out that the economic outlook would depend on the uncertainty surrounding external demand and the manufacturing industry, along with the effects of economic bailout measures. In Thailand, there has been ongoing opposition concerning the views on monetary policy between the government, which continues to request a policy interest cut since the beginning of the year, and the BOT. This opposition persists today, as can be seen in the recent example in which the government proposed raising the existing inflation target rate (1–3%), which was opposed by the BOT. Thus, there is no sign of a change of the stance of the BOT at this moment.

For the above reasons, it is unlikely for the U.S. dollar/Thai baht exchange rate to move significantly from the current rate in either direction. However, it is worth mentioning that the dissolution of the Move Forward Party is to be deliberated at the Constitutional Court on July 3. Moreover, allegations of an anti-constitutional decision by Prime Minister of Thailand Srettha Thavisin are also to be deliberated on July 10. Even though political confusion is not new in Thailand, market participants should remain attentive of these cases as a risk factor that could weaken the Thai baht in the foreign exchange market.

Malaysian Ringgit – July 2024

Expected Ranges

Against the US\$: MYR 4.65–4.75

Against the yen: JPY 32.90–34.20

1. Review of the Previous Month

In June, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range without moving in any direction, after a series of events at major central banks.

After consecutive holidays, the U.S. dollar/Malaysian ringgit exchange market opened trading at the MYR 4.68 level with a weaker U.S. dollar compared to the closing rate in May, as U.S. economic indices had been released during the night time of the previous day and the figures fell below the market estimate. Thereafter, market participants bought back the U.S. dollar gradually. However, the number of Job Openings and Labor Turnover Survey (JOLTS) job openings and the ADP employment statistics did not reach the market estimate either, which weakened the U.S. dollar slowly again. Then, on June 6, the European Central Bank (ECB) held a monetary policy committee meeting and decided to cut its policy interest rate. However, the impact of this in the market was minimal, as this decision had been anticipated. The May employment statistics of the U.S., including the headline statistics, turned out to be strong thereafter, and this led the U.S. dollar/Malaysian ringgit exchange rate to rise sharply to approach the MYR 4.72 level on June 10.

In the middle of the month, the U.S. dollar/Malaysian ringgit exchange rate remained stable, thanks to the figures in the May employment statistics of the U.S. However, on June 12, the May Consumer Price Index (CPI) of the U.S. was announced with a weak figure. Also, at a Federal Open Market Committee (FOMC) meeting, the dot plot was revised downward to one policy interest rate cut before the end of the year. However, Federal Reserve Board (FRB) Chair Jerome Powell made a well-balanced remark at the press conference held after the meeting. As a result, it did not impact the foreign exchange market significantly. After the CPI of the U.S. was announced, the U.S. dollar/Malaysian ringgit exchange rate once fell below the MYR 4.70 level, as interest rates in the U.S. fell. However, the central bank of Switzerland decided to cut its policy interest rate for the second time, and this encouraged market participants to buy the U.S. dollar against European currencies. This impacted the U.S. dollar/Malaysian ringgit exchange market, and therefore the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating mainly at the MYR 4.71 level thereafter.

At the end of the month, the May CPI of Malaysia was announced, and the result turned out to be +2.0% year-on-year, revealing an acceleration for the first time in three months. However, the impact of this on the foreign exchange market was minimal. Market participants are shifting their funds into emerging currencies, while waiting for the debates between Joe Biden and Donald Trump scheduled after the closing of the U.S. market on June 27 as well as the announcement of the May PCE price index of the U.S. scheduled for June 28. As a result, the U.S. dollar/Malaysian ringgit exchange rate fell to approach the MYR 4.70 level during the first half of the last week of the month. However, in the second half of the week, the exchange rate rallied before the key events. Thus, the U.S. dollar/Malaysian ringgit exchange rate has been fluctuating within a narrow range at the lower-MYR 4.70 level.

2. Outlook for This Month

In July, market participants will remain attentive of the timing of a policy interest rate cut in the U.S., while the central bank of Malaysia is expected to maintain existing monetary policy at its Monetary Policy Committee (MPC) meeting. Thus, the U.S. dollar/Malaysian ringgit exchange rate is most likely to remain low.

In June, the U.S. employment statistics turned out to be stronger than expected, and this caused fluctuations in the U.S. dollar/Malaysian ringgit exchange market. However, thereafter, the CPI of the U.S. was announced in the middle of the month, and it confirmed the effect of monetary policy on inflation. However, FRB officials made a series of remarks to emphasize that, instead of focusing on short-term figures, the FRB should ensure that the inflation rate remains at 2%—the target rate—with a stable trend for at least one quarter to several years if a longer period is considered. These remarks are to keep market participants from excessively challenging the FRB. It is important to note that many FOMC members expected two policy interest rate cuts before the end of the year, even though the dot plot shows only one policy interest rate cut for this year, and this is likely to prevent the U.S. dollar from appreciating further.

With regard to domestic factors in Malaysia, market participants were previously concerned about the depreciation of the Malaysian ringgit. However, various economic indices suggest that the Malaysian economy is growing, mitigating concerns over the depreciation of the Malaysian ringgit. The latest figures for the May CPI of Malaysia also confirmed the stable situation, which makes it unlikely for downward pressure on the Malaysian ringgit to strengthen.

For these reasons, trends in the U.S. dollar/Malaysian ringgit exchange market are likely to depend on economic data, as has been the case so far. Thus, if U.S. economic indices remain strong, interest rates in the U.S. are expected to remain high, also strengthening the U.S. dollar. However, the U.S. dollar/Malaysian ringgit exchange rate is more likely to stagnate than to continue rising toward the MYR 4.80 level—at about which market participants were once worried. Therefore, the U.S. dollar/Malaysian ringgit exchange rate is forecast to remain low at around the MYR 4.70 level.

Indonesian Rupiah – July 2024

Expected Ranges

Against the US\$: IDR 16,000–16,500

Against the yen: JPY 0.9615–1.0000 (IDR 100)

1. Review of the Previous Month

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

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the lower-IDR 16,200 level on June 3. On the same day, the May Consumer Price Index (CPI) of Indonesia was announced, and the result turned out to be +2.84% year-on-year, slightly below the market estimate. However, the core CPI turned out to be +1.93%—exceeding the market estimate. Thus, the inflation indices had both strong and weak figures, and the impact on the foreign exchange market was minimal. On June 4, the governor of the central bank of Indonesia, Perry Warjiyo, made a remark at a congressional testimony that the U.S. dollar/Indonesian rupiah exchange rate is expected to fluctuate between IDR 15,700 and IDR 16,100 in 2024 and that the Indonesian rupiah is expected to appreciate to the range between IDR 15,300 and IDR 15,700 to the U.S. dollar. However, there was little reaction to this statement in the market, and the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at the lower-IDR 16,200 level. On June 5, the Indonesian rupiah depreciated against the U.S. dollar to the upper-IDR 16,200 level. However, as this was the lowest rate for the Indonesian rupiah observed recently, the exchange rate did not rise further. Thus, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range between the mid-IDR 16,200 level and the upper-IDR 16,200 level. On June 7 local time in the U.S., the May employment statistics of the U.S. were released, and the result turned out to be strong, which encouraged market participants to buy the U.S. dollar. As a result, after the weekend, the U.S. dollar appreciated against the Indonesian rupiah to the upper-IDR 16,200 level on June 10. On June 13, the U.S. dollar/Indonesian rupiah exchange rate fell temporarily, as the May CPI of the U.S. had been announced on the previous day with a weak figure. However, the exchange rate rallied immediately thereafter. On June 14, the central bank of Indonesia announced that it had intervened in the foreign exchange market in order to control inflation and stabilize the exchange rate. However, the depreciation of the Indonesian rupiah did not slow down, and the U.S. dollar/Indonesian rupiah exchange rate exceeded the IDR 16,300 level. Subsequently, the depreciation of the Indonesian rupiah accelerated further, and the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 16,400 level.

After the weekend, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 16,300 level on June 19. Thereafter, market participants bought back the Indonesian rupiah, partially because the Indonesian rupiah had been sold excessively in the previously week. As a consequence, the U.S. dollar/Indonesian rupiah exchange rate rallied to the lower-IDR 16,300 level. On June 20, the central bank of Indonesia decided to maintain its main policy interest rate at the existing level at its monetary policy meeting. This decision had been anticipated by the majority of market participants. However, some were expecting a policy interest rate hike, as the Indonesian rupiah had recently renewed its lowest rate, resulting in the further depreciation of the Indonesian rupiah again. Thus, the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 16,400 level. On June 21, the following day, the Indonesian rupiah continued depreciating, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 16,400 level—the lowest rate for the Indonesian rupiah in the month. However, on June 24 in the

following week, the U.S. dollar/Indonesian rupiah exchange rate returned to approach the IDR 16,400 level. Toward the end of the month, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at around the IDR 16,400 level, at which level monthly trading closed.

2. Outlook for This Month

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

At the meeting held in June, the central bank of Indonesia decided to maintain its policy interest rate at the existing level, despite the continued depreciation of the Indonesian rupiah. At the meeting held in April, the central bank had decided to raise its policy interest rate further in order to control the depreciation of the Indonesian rupiah. It seems that, in June, the central bank decided to maintain its policy interest rate at the existing level for the second time in three months, given the current conditions of the domestic economy, avoiding another policy interest rate hike. It is also worth pointing out that June is a month in which the currency tends to depreciate with dividend payments. Thus, the temporary seasonal factor is one of the reasons why the Indonesian rupiah had depreciated further, which is another reason why the central bank may have decided not to raise its policy interest rate in June.

While maintaining the policy interest rate at the existing level, the central bank of Indonesia also kept the stance to prioritize the stability of the exchange rate, stating that it would intervene in the foreign exchange, DNDF (domestic non-deliverable forwards), and government bond markets, if necessary. Thus, the central bank confirmed once again its intention not to allow the Indonesian rupiah to depreciate excessively. As expectations for policy interest rate cuts in the U.S. are receding, the U.S. dollar is likely to appreciate in the current environment. However, market participants are less likely to sell the Indonesian rupiah in the times ahead, as dividend payments have peaked out, weakening pressure to sell the Indonesian rupiah. Furthermore, since the central bank is aiming at the stability of the exchange rate, rapid and excessive depreciation of the Indonesian rupiah is likely to be prevented through market interventions. For these reasons, the depreciation of the Indonesian rupiah is expected to happen only to a limited extent.

On the other hand, in terms of supply & demand, temporary factors, such as the resource price increase, have had no more impact, and the current account balance has seen a deficit since the April–June quarter of 2023, which continues to make it likely for the Indonesian rupiah to depreciate. Thus, even if the depreciation of the Indonesian rupiah can be controlled from a short-term point of view, market participants may need to remain cautious about possible depreciation from a medium- to long-term perspective.

Philippine Peso – July 2024

Expected Ranges

Against the US\$: PHP 57.50–59.50

Against the yen: PHP 0.360–0.380

1. Review of the Previous Month

In June, the Philippine peso renewed its lowest rate since the beginning of the year, although the U.S. dollar/Philippine peso exchange rate did not rise further.

At the beginning of the month, the U.S. dollar/Philippine peso exchange market opened trading at around the mid-PHP 58 level. In the first week of the month, the U.S. dollar continued appreciating, and the U.S. dollar/Philippine peso exchange rate intermittently renewed the lowest rate for the Philippine peso and the highest rate for the U.S. dollar since the beginning of the year, eventually reaching the PHP 58.80 level. Thereafter, long-term interest rates in the U.S. fell to the lowest level in approximately two months, while market participants adjusted their positions while waiting for the release of the May employment statistics of the U.S. As a result, the U.S. dollar/Philippine peso exchange rate returned to approach the mid-PHP 58 level. After the release of the May employment statistics of the U.S., market participants bought the U.S. dollar vigorously again. However, the U.S. dollar/Philippine peso exchange rate did not rise significantly, only reaching PHP 58.80, observed also on the previous day.

In the middle of the month, a series of major Philippine economic indices were announced. In the April trade statistics of the Philippines, the trade deficit increased both figures compared to the previous month's result and the market estimate. However, market participants remained cautious about the U.S. dollar/Philippine peso exchange rate rising excessively, and thus the Philippine peso did not depreciate significantly. In the end, the U.S. dollar/Philippine peso exchange rate continued fluctuating at around the mid-PHP 58 level, while market participants were waiting for the release of the May price indices of the U.S. as well as the outcome of a Federal Open Market Committee (FOMC) meeting in the U.S.

Toward the end of the month, the U.S. dollar started to appreciate again, in response to the policy interest rate outlook released by members of the Federal Reserve Board (FRB) (with a smaller number of policy interest rate cuts expected before the end of 2024). The U.S. dollar/Philippine peso exchange rate thus rapidly rose to approach the PHP 58.80 level. However, the exchange rate did not rise further, demonstrating difficulty for the U.S. dollar to appreciate against the Philippine peso more significantly.

At the end of the month, the central bank of the Philippines held a monetary policy meeting and decided to maintain its policy interest rate at the existing level, as had been anticipated by market participants.

The U.S. dollar/Philippine peso exchange market closed trading in June just below the PHP 59 level.

2. Outlook for This Month

In July, the U.S. dollar/Philippine peso exchange rate is forecast to remain on an uptrend.

In June, the U.S. dollar/Philippine peso exchange rate intermittently renewed the lowest rate for the Philippine peso and the highest rate for the U.S. dollar since the beginning of the year. However, looking back at the entire month, the U.S. dollar/Philippine peso exchange rate only fluctuated within a narrow range from the mid-PHP 58 level to the upper-PHP 58 level. The Philippine peso has been depreciating since the middle of March in which the U.S. dollar/Philippine peso exchange rate was at the lower-PHP 55 level. With this trend, the rate of depreciation was approximately 6%, and the Philippine peso depreciated by around PHP 1 every month. Given such a situation, it can be said that the Philippine peso remained stable in June, as the monthly fluctuation range was only about PHP 0.5.

However, it is not that there are many reasons for market participants to buy the Philippine peso. The depreciation of the Philippine peso accelerated in the middle of May when the central bank of the Philippines suggested a possible policy interest rate cut by around 0.5% before the end of the year. In June, some high officials mentioned the possibility for policy interest rates to be cut by 1.5%, although such a remark was withdrawn thereafter in order to avoid raising expectations too high among market participants. On the other hand, the central bank of the Philippines has been only repeating the same statement such that it leaves the exchange rate to the market. The U.S. dollar/Philippine peso exchange rate has been approaching the PHP 59 level, a psychological turning point, which slowed down the appreciation of the U.S. dollar.

As has been the case so far, the U.S. dollar/Philippine peso exchange rate is expected to fluctuate in accordance with U.S. economic indices and trends in long-term interest rates in the U.S. Moreover, there is now the timing of the policy interest rate cut by the central bank of the Philippines, which has become another factor to impact the market. An increasing number of market participants expect the policy interest rate in the U.S. to be cut toward the end of the year. Thus, there are more factors to weaken the Philippine peso for the moment. On the other hand, the central bank of the Philippines is cautious about the resurgence of inflation caused by the depreciation of the Philippine peso. Thus, the central bank is unlikely to allow the significant depreciation of the Philippine peso. Depending on the figures in the U.S. economic indices that are to be announced at the beginning of July, it is possible for the U.S. dollar/Philippine peso exchange rate to reach the PHP 59 level. However, it is difficult to expect the Philippine peso to depreciate at the same rate as previously seen. Thus, the U.S. dollar/Philippine peso exchange rate is most likely to fluctuate within a range between the upper-PHP 58 level and the PHP 59 level.

Indian Rupee – July 2024

Expected Ranges

Against the US\$: INR 83.00–83.90

Against the yen: JPY 1.85–1.98

1. Review of the Previous Month

In June, the U.S. dollar/Indian rupee exchange rate remained high and continued fluctuating in both directions at around the mid-INR 83 level.

In June, the U.S. dollar/Indian rupee exchange market opened trading at around the INR 83 level. At the beginning of the month, a major ratings company in the U.S. announced its decision to upgrade the sovereign rating for India from stable to positive. Furthermore, the annual GDP growth rate of India for 2023 turned out to be 8.2%, exceeding the market estimate. Thanks to these positive factors, the Indian rupee appreciated. However, when the U.S. dollar/Indian rupee exchange rate fell below the INR 83 mark, there were frequent transactions based on actual demand as well as foreign exchange market interventions (by buying the U.S. dollar and selling the Indian rupee) by the Reserve Bank of India (RBI) so as to keep the U.S. dollar/Indian rupee exchange rate from falling further. Thus, the U.S. dollar/Indian rupee exchange rate fell back shortly thereafter. From the middle to the end of the month, the U.S. dollar/Indian rupee exchange rate remained high and continued fluctuating in both directions at around the mid-INR 83 level. In this context, the Indian rupee once renewed the lowest rate since the beginning of the year. However, there were counter transactions (selling the U.S. dollar and buying the Indian rupee) based on actual demand, and thus the Indian rupee did not excessively depreciate against the U.S. dollar. In the end, the U.S. dollar/Indian rupee exchange market closed trading in June at around the mid-INR 83 level (as of June 26).

The BSE SENSEX was at around the 76,000 level at the beginning of the month, after which it fell sharply on the day when all votes for the election were counted, as Narendra Modi lost his parliamentary majority, disappointing many people. On the other hand, the trend changed significantly on the following day of the vote count, and market participants started buying stocks, and the BSE SENSEX reached the 79,000 level toward the end of the month—renewing the highest figure since the beginning of the year. There has been a net buy of Indian stocks from foreign investors in June, whereas there was a net sell in April and May. Thus, capital inflow seems to have returned to the Indian stock market again.

In terms of Indian economic indices, the May Purchasing Managers' Index (PMI) for the manufacturing and service industry recorded a slight decline from the previous figure. At the monetary policy committee meeting held in June, the policy interest rate was maintained at the existing level (6.50%) for the eighth consecutive time. However, it is important to point out that the number of votes for a policy interest rate cut increased from that of the previous meeting. The voting result was four versus two. Also, the April industrial production exceeded the market estimate while the previous figure was also revised upward. The May Consumer Price Index (CPI) turned out to be +4.75% year-on-year, showing a decline from the previous figure, which was +4.83% year-on-year. Thus, inflation seems to be stabilized at the 4.0% level, which is the target inflation rate. The May trade balance revealed an increased trade deficit. With a constant trade deficit, the Indian rupee remains a weak currency.

2. Outlook for This Month

In July, the Indian rupee is forecast to start depreciating against the U.S. dollar slowly.

In July, the U.S. dollar/Indian rupee exchange rate is forecast to remain high and to continue fluctuating in both directions, while the Indian rupee is expected to start depreciating slowly. In June, the U.S. dollar/Indian rupee exchange rate fluctuated mainly at around the mid-INR 83 level, and transactions based on actual demand kept the exchange rate from rising further. The RBI is still likely to continue intervening in the market to keep the U.S. dollar/Indian rupee exchange rate from falling significantly. Thus, the U.S. dollar/Indian rupee exchange rate is not likely to fluctuate violently. However, it seems that the central bank is now less active in keeping the U.S. dollar/Indian rupee exchange rate from rising significantly. Thus, the U.S. dollar/Indian rupee exchange rate may start approaching the INR 84 level slowly in the times ahead.

The May CPI declined from the previous figure. At the meeting held in June, the monetary policy committee (MPC) decided to maintain its policy interest rate at 6.50%. However, there were more votes for a policy interest rate cut compared to the previous meeting. The central bank maintains the monetary policy of raising the policy interest rate to control inflation, remaining cautious about inflation. Under such circumstances, it has now become a little more likely for the central bank to cut its policy interest rate by 25 basis points toward the second half of the year, with the precondition that the inflation target rate of +4.0% will be achieved soon.

In the election in India, which attracted substantial attention in the market, the government under Narendra Modi had been expected to win easily. Due to such excessive expectation, the Indian rupee, Indian stock prices, and Indian bond prices all fell after the election. Yet, this did not change the market trend significantly, and investors seem to consider India as an attractive investment destination with expected growth from a medium- to long-term perspective. Under such circumstances, in June, there was a net buy in the stock and bond markets in India, whereas there was a net sell previously.

The most-probable scenario for the U.S. dollar/Indian rupee exchange market remains unchanged. The Indian rupee is expected to start appreciating toward the second half of this year, in which the policy interest cuts are likely to start in the U.S. However, the pressure to sell the U.S. dollar is not likely to increase in an accelerated manner, as the RBI is expected to intervene in the foreign exchange market to keep the U.S. dollar/Indian rupee exchange rate from falling significantly, while there is also likely to be outflows (selling of the Indian rupee) based on actual demand. Thus, the Indian rupee is expected to start depreciating again eventually. Depending on the inflation level in the U.S., there may be cases in which market participants expect a policy interest rate hike. In such a situation, market participants should be cautious, as the trend can be completely opposite of what is expected with growing pressure to buy the U.S. dollar. Market participants should also remain attentive, as the U.S. dollar/Indian rupee exchange rate may become temporarily volatile, depending on decisions related to monetary policy to be taken in the U.S. and India.

This report was prepared based on economic data as of June 28, 2024.

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