Mizuho Dealer's Eye

August 2024

Mizuho Bank, Ltd.

Global Markets Sales & Trading Department

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U.S. Dollar – August 2024

Expected Ranges **Against the yen: JPY146.00–156.00**

1. Review of the Previous Month

At the start of July, the dollar/yen pair rose to just below 162 yen, with the yen sliding to its lowest level in around 38 years. However, the currency pair moved bearishly from mid-July and it dropped below 152 yen.

(Week 1) The pair opened the month trading at 160.94 yen. The US then released a weak June Manufacturing ISM Report on Business. The pair was also weighed down on July 2 when FRB chair Jerome Powell said there were renewed signs of disinflation, though it bounced back on the better-than-expected result of the May US JOLTS Job Openings figure. The pair hit a high of 161.96 yen on July 3 on rising stocks and US interest rates, with this marking its highest level for around 38 years. The US then released a worse-than-expected June Non-manufacturing ISM Report on Business, with the currency pair temporarily falling to the lower-160 yen mark on July 5 on the release of some bearish US employment data for June.

(Week 2) The dollar/yen pair edged up from the mid-160 yen level to the upper-161 yen mark over July 8–10 as Japanese and US stock markets moved bullishly and US interest rates remained high. However, the pair fell sharply on July 11 after the US released some weaker-than-expected CPI data for June. With the Japanese government and the Bank of Japan (BOJ) also apparently intervening around the same time, the pair fell further to 157.40 yen. The pair moved erratically around 158 yen on July 12. The Japanese authorities also seemed to make another yen-buying intervention during overseas trading time, so the pair dipped to a weekly low of 157.30 yen.

(Week 3) With Tokyo on holiday on July 15, the pair moved with a heavy topside around 158 yen, though it then bounced back to 158.85 yen on July 16 on the firm results of the US June retail sales data. Former president Donald Trump voiced concerns about the dollar's strength on July 17, while Japan's Japanese Digital Transformation Minister Kono Taro called for rate hikes on July 18, so the currency pair continued falling to hit 155.38 yen on July 18. However, after a round of selling the pair returned to 157 yen in the latter half of the week.

(Week 4) Yen shorts were unwound in the fourth week on the previous week's movements, so the pair weakened further to hit the mid-155 yen mark on July 23. On July 24, news emerged that the BOJ would discuss rate hikes when it met to set policy at the month's end. With US interest rates also falling, the dollar/yen pair was temporarily pushed down to the lower-153 yen level. The pair dropped below 153 yen on July 25 as Japanese stocks fell sharply. During overseas trading time, it then slipped to 151.95 yen, its lowest level in around 10 weeks. It then rallied to around 154 yen on the strong results of the preliminary US 2Q GDP data. US interest rates fell on July 26 as the results of the US June PCE indicator suggested the US was still on track for rate cuts, with the currency pair also weakening to 153.10 yen.

(Week 5) The pair moved around 154 yen on July 29 as a wait-and-see mood prevailed ahead of the monetary policy meetings in Japan and the US. The pair was bought to around 155 yen on July 30 on bullish stocks and position adjustments, but the yen then strengthened by more than two yen on reports that the BOJ would discuss further rate hikes. As broadly expected, the BOJ's Monetary Policy Meeting hiked decided to hike rates and scale back its JGB purchases when it met on July 31. The dollar/yen pair moved erratically to temporarily hit 151.58 yen. With the FOMC meeting looming, the pair was trading in the upper-152 yen range as of 15:00 Tokyo trading time on July 31.

2. Outlook for This Month

The dollar/yen pair will continue trading with a heavy topside this month.

At the BOJ's Monetary Policy Meeting held at the end of July, it lifted its policy rate by 0.25% while also deciding to taper its purchases of long-term JGBs until they reached around three trillion yen in 1Q 2026. There had been prior reports that the BOJ would consider rate hikes, so the decision only bolstered the yen slightly, though the currency pair was still pushed below 152 yen. The BOJ's statement said the environment remained accommodative, with real interest rates still moving in negative territories, but it also mentioned further rate hikes in future, with the statement striking a delicate balance. Speculators have been unwinding their yen short positions since mid-July, but around 60% of the short positions accumulated during the recent phase of yen weakness still remain in place, so there is unlikely to be much active yen selling.

The results of the FOMC meeting will be released after this report is written, but it seems likely the FOMC will keep policy rates fixed, with the impact on the markets muted. The FRB has made positive noises about recent indicators related to employment and inflation, with some voices suggesting rate hikes might begin soon. However, many observers also believe the FRB will want to see further signs that inflation is cooling, with the FRB probably wanting to retain some flexibility when it comes to policy. The markets are convinced that rate cuts will begin in September, with expectations growing for 2.7 to 3 rate cuts before the year is out. If the FRB nonetheless maintains somewhat hawkishly that things will "depend on the data," then the dollar could strengthen at times, so caution will be needed. However, while inflationary pressures are waning, the employment market is also starting to loosen. If the FRB can confirm that prices are cooling off in August, then FRB chair Jerome Powell might announce a commencement of rate cuts in September when he gives a speech at the Jackson Hole symposium over August 22–24, so investors should be wary of the dollar/yen pair depreciating.

Furthermore, all eyes will be glued to news about the US presidential election. With Joe Biden announcing that he won't be standing again, it now seems nailed on that we will witness a new "Trump vs Harris" scenario. Former president Donald Trump's momentum has since waned, with so-called "Trump trades" being unwound. Opinion polls shows support for the two moving neck and neck. If vice president Kamala Harris can paint herself as the unity candidate when the Democratic National Convention is held over August 19–22, her approval ratings will probably rise higher. However, upper and lower house elections will be held at the same time and it seems the Republicans will win the Senate at the very least, so even if Harris does win, she will probably have to preside over a divided house. With the election battle returning to square one, the currency markets could behave erratically going forward, so market participants should watch out for volatile movements.

Dealers' Market Forecast

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

Bullish on the dollar	8 bulls	155.00 – 149.75	Bearish on the dollar	7 bears	155.00 – 148.00

* Ranges are central values

Miyachi	Bull	154.50 – 149.50	The yen rose by around ten yen against the dollar in July on yen-short adjustments and a BOJ rate hike. There is now a sense that yen-buying factors have run out. If Japanese/US interest-rate differentials remain the same and trade slows on the summer dry season, the dollar/yen pair will move firmly.
Kawai	Bear	155.00 – 147.00	The BOJ hiked rates again in July. At the FOMC's July meeting, though, FRB chair Jerome Powell dropped hints about rate cuts in September. The dollar/yen pair has dropped below its chart support line of 151 yen and will probably slide further going forward.
Kawabata	Bear	157.00 – 149.50	External factors behind yen bearishness are showing signs of shifting, with the current account balance improving and expectations growing for US rate cuts, for example. The BOJ has only just finished making a surprise rate hike late July too, with pressure for speculative yen selling easing off.
Kato	Bear	155.00 – 150.00	The main factor behind the BOJ's rate hike in July was probably the widespread public discontent with the negative impacts of yen bearishness. However, any major impact on the forex markets will have to wait until the US shifts policy, something expected as early as September or as late as December.
Yamazaki	Bear	154.50 – 148.00	With the BOJ implementing a rate hike, the markets should keep an eye on yen bullishness. After the dollar/yen pair's downside is confirmed, its topside will probably be tested amid a dearth of factors. On the whole, though, investors should focus on the pair's downward momentum.
Yamaguchi	Bear	155.00 – 148.00	With the BOJ hiking rates and speculation growing about a US rate cut, Japanese/US interest-rate differentials are shrinking and the dollar/yen pair us likely to move with a heavy topside. With the US presidential election also kicking off in earnest, investors may avoid the dollar on growing political risk.
Tagawa	Bull	156.50 – 151.00	Yen-buying factors are hard to find in the wake of the BOJ's rate hike, probably because investors had already priced in that move. The markets have also sufficiently priced in a September FOMC rate cut. With the dollar/yen pair falling by around ten yen in July, it will probably face some upward adjustment in August.
Matsunaga	Bull	156.00 – 148.50	The yen will probably be bought early August on expectations for monetary policy shifts in Japan and the US, but if indicators confirm the strength of the US economy, the dollar/yen pair will probably bounce back as risk sentiments recover.
Okuma	Bull	155.00 – 149.50	Though the BOJ implemented a rate hike, prices and wages remain subdued in Japan, so the yen looks set to remain bearish. Investors are pricing in an FOMC rate cut in September, but momentum will be thin until then as the markets enter the August dry season, so the dollar/yen pair is expected to move firmly.
Han	Bear	155.00 – 151.00	It seems yen-buying factors related to the BOJ have waned. At the same time, the markets have priced in a September FOMC rate cut to a large extent, with the dollar unlikely to be sold further on expectations for rate cuts.
Ito (Motoi)	Bull	158.00 – 150.00	Though the BOJ hiked its policy rate, it will find it hard to lift rates again given Japan's macroeconomic environment. There do not seem to be any more factors on the Japan side, so the yen will probably start weakening again when overseas investors return after the summer dry season.

Suzuki	Bull	155.00 – 148.00	There are doubts about whether the BOJ can continue lifting rates in the face of weak consumer spending, for example. With the BOJ also reducing its JGB balance, there is a strong sense that factors have run out on the Japanese side. The markets have fully priced in a September FOMC rate cut, but there are also concerns that these expectations might wane, with the dollar/yen pair set to rise again in August.
Nishi	Bear	156.00 – 146.00	With the BOJ moving resolutely to hike rates, Japanese/US interest-rate differentials have shrunk. There remain a lot of yen short positions, so investors will refrain from actively buying the dollar/yen pair. If it is reconfirmed that inflation is slowing in the US, there will probably be moves to price in rate cuts not only in September but two more times before the year is out.
Minamino	Bear	153.00 – 145.00	The BOJ's Monetary Policy Meeting struck a hawkish stance in July, with the long-standing trend of dollar buying and yen selling perhaps reaching a turning point. With expectations growing for US rate cuts, the dollar/yen pair will face downward pressure in August.
Matsuki	Bull	155.00 – 150.00	With the BOJ and FOMC meetings out of the way, there will be a dearth of noteworthy events in August. With volatility thin on the ground, the environment is ripe for a recommencement of yen carry trades, with the dollar/yen pair set to move firmly.

Takashi Miyachi, Forex Sales, Global Markets Sales & Trading Department

Euro – August 2024

Expected Ranges **Against the US$: US$1.0600–1.0900**
Against the yen: JPY160.00–170.00

1. Review of the Previous Month

(Week 1) The euro/dollar pair opened the month at the lower-$1.07 mark. The far-right National Rally (NR) won less votes than polls suggested in the first round of voting in the closely-watched French parliamentary elections, so the currency pair rose to the mid-$1.07 level. The pair weakened to $1.0710 for a time on July 2, but it then soared to the lower-$1.08 mark on July 3 after the dollar was sold on the worse-than-expected results of the US June Non-manufacturing ISM Report on Business. US interest rates then fell toward the weekend and French stocks rose, so the pair moved firmly at $1.08.

(Week 2) The pair opened the week trading in the lower-$1.08 range. At the weekend, a coalition of left-wing parties had unexpectedly gained the largest number of sears in the final round of voting in the French parliamentary elections, so the currency pair fell for a time, but with neither the left nor the right able to command a majority of seats, the pair strengthened to the mid-$1.08 level as fiscal deficit concerns waned. FRB chair Jerome Powell struck a neutral tone in his testimony to Congress on July 9, but the pair then fell to the lower-$1.08 mark when the dollar was bought on rising US interest rates. The greenback weakened later in the week when the closely-watched US June CPI data fell below forecasts on its release on July 11. As US interest rates fell towards the weekend, the pair closed the week up in the lower-$1.09 range.

(Week 3) The euro/dollar pair began mid-July trading at the lower-$1.09 mark. It then slid to the upper-$1.08 level on July 16 after the US released some better-than-expected June retail sales data. However, former US president Donald Trump then complained about the dollar's strength on July 17, while FRB governor Christopher Waller said, "we are getting closer to the time when a cut in the policy rate is warranted," so the dollar weakened and the currency pair hit a monthly high of $1.0948. The ECB Governing Council kept policy rates fixed when it met on July 18, but ECB president Christine Lagarde then commented that "the risks to economic growth are tilted to the downside," so the pair dropped to the lower-$1.09 mark. US interest rates rebounded on July 19, so the pair moved heavily to close in the upper-$1.08 range.

(Week 4) The pair began late July trading at the upper-$1.08 mark. On July 23, ECB vice-president Luis de Guindos commented that "September is a much more convenient month for taking decisions." As speculation about ECB rate cuts grew, the euro/dollar pair weakened to the mid-$1.08 mark. With Germany then releasing a bearish composite PMI on July 24, the currency pair slid to the lower-$1.08 level. US stocks rose later in the week as the US released some bullish 2Q GDP data, so the cross yen rebounded and the euro/dollar pair rallied slightly to hit the upper-$1.08 level.

(Week 5) The pair opened July 29 trading in the upper-$1.08 range. It climbed to the upper-$1.08 mark for a time, but German interest rates then fell and the euro/yen pair was sold, so the euro/dollar pair slid to the lower-$1.08 level. The eurozone released some better-than-expected 2Q GDP data on July 30, but the pair's room on the upside was capped.

2. Outlook for This Month

The euro/dollar pair will probably trade in a narrow range with a heavy topside in August.

Turning to European monetary policy, and the ECB Governing Council cut rates by 25bp when it met in June. It left rates fixed in July, but the markets are pricing in another 25bp cut at the September meeting. It seems likely the FRB will cut rates in September too, so there is unlikely to be much difference between US and European monetary policy, at least in the short term. However, a US presidential election is looming in November, so it is hard to imagine the US implementing staggered, ongoing rate cuts. US/European interest-rate differentials have already shrunk substantially since the start of the year, so the currency pair will have limited room on the upside.

As for US fundamentals, recent US economic indicators have produced mixed results, but the economy seems to be moving firmly overall, with inflation cooling and consumer spending providing a boost. On the other hand, Europe has recently released several worse-than-expected indicators, including German's July IFO Business Climate Index and July Manufacturing PMI. With inflation also persisting, the euro will probably be sold on stagflation fears.

Monetary policy shifts and political events in each country suggest the global market is undergoing some adjustment. The dollar's rise has been supported by US stock movements, but this bullishness may well wane in this current environment. The euro/dollar pair's downside will be supported when the dollar's sharp rise is corrected. The markets have been swayed by carry trades, but if these undergo some substantial unwinding, the euro/yen pair will be sold, with this likely to weigh the euro's topside down, so caution will be needed.

Since February this year, the euro/dollar pair has basically continued to trade in a narrow range around $1.08. Market participants will be thin on the ground in August on the summer dry season, with the currency pair likely to trade in a range with a heavy topside.

Dealers' Market Forecast

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

Bullish on the euro	4 bulls	1.1000 – 1.0700	Bearish on the euro	11 bears	1.0900 – 1.0600

* Ranges are central values

Miyachi	Bear	1.0900 – 1.0600	Recent European economic indicators are likely to raise concerns about a slowdown and sticky inflation. This could lead to speculation about stagflation. The euro/dollar pair will basically trade with a heavy topside within a range this month.
Kawai	Bear	1.0900 – 1.0700	The euro/dollar pair will trade in a range with a lack of incentive. Neither the FOMC nor the ECB will be meeting this month, with investors instead focusing on the Jackson Hole symposium at the month's end. The markets are expecting 2–3 US rate cuts this year, so unless FRB chair Jerome Powell's speech pours a lot of cold water on these expectations, the symposium will only have minimal impact on the pair.
Kawabata	Bull	1.0950 – 1.0600	For now, developments will probably be driven by data related to inflation and so on. The GDP data released in late July was firm on the whole. ECB Officials have voiced caution about lowering rates further. This marks a contrast with the US, with there are strong expectations for rate cuts, with the euro likely to move bullishly against the dollar. As such, the euro/dollar pair looks set to move firmly in a range.
Kato	Bear	1.0900 – 1.0700	The ECB has clearly steered in the direction of rate cuts, though at a very slow pace. The speed of the euro's slide has also waned now there is less risk of the single currency crashing on a victory by a coalition of left-wing parties in the French parliamentary elections.
Yamazaki	Bear	1.0950 – 1.0600	The US has released some mixed results when it comes to consumer spending, with this pointing to headwinds for the US economy. However, if the US economy continues to move firmly in August, the euro/dollar pair will probably weaken.
Yamaguchi	Bull	1.1000 – 1.0700	The euro/dollar pair will probably undergo a gentle rise. It will continue to be weighed down by French political risk, but the FRB will soon follow the ECB in cutting rates, with the dollar susceptible to selling as a result. The euro will also be supported by expectations for a eurozone economic recovery.
Tagawa	Bear	1.0900 – 1.0500	It seems the FRB and ECB will both move to lower rates at the same pace. However, the ECB has already moved to cut rates, while eurozone nations are releasing some mixed indicators, with the situation more bearish in Europe than the US. The euro/dollar pair will fall slightly.
Matsunaga	Bear	1.0950 – 1.0600	With the FRB and ECB both entering the phase of rate cuts, the situation will remain balanced. Investors have already priced in a September US rate cut, with the euro likely to have slightly more room on the downside than the dollar.
Okuma	Bear	1.0900 – 1.0650	Germany and other European nations have released some sluggish economic indicators, with the ECB also recognizing that inflationary pressures are easing. With investors also pricing in a September rate cut, the euro/dollar pair is likely to trade with a heavy topside in August.
Han	Bear	1.0900 – 1.0600	With each country examining when to cut rates, the euro will remain easier to sell than the dollar considering how the pace of disinflation is slowing in the US compared to Europe.
Ito (Motoi)	Bear	1.0900 – 1.0650	With the US economy moving firmly, the markets have priced in more than two US rate cuts within the year, though this seems somewhat excessive. The dollar will move bullishly as expectations for rate cuts wane, with the euro/dollar pair moving bearishly as a result.

Suzuki	Bear	1.1000 – 1.0500	It seems the markets have overly priced in US rate cuts. While expectations for US rate cuts are waning, the ECB has also gone ahead and lowered rates. With risk in the Middle East also flaring up again, the euro/dollar pair is expected to move bearishly.
Nishi	Bull	1.1000 – 1.0700	The ECB Governing Council kept policy rates fixed when it met in July. With inflation remaining strong in the eurozone, the ECB will continue to make data-driven decisions from the next meeting onwards. On the other hand, investors are pricing in three US rate cuts within the year, with the euro likely to move comparatively firmly against the dollar.
Minamino	Bull	1.1000 – 1.0700	The euro/dollar pair looks set to move in a range. Momentum will be thin amid a dearth of factors now that major central bank events are out of the way. However, if the US continues to release some weak economic indicators, dollar selling might accelerate.
Matsuki	Bear	1.0900 – 1.0700	Investors have finished pricing in a September US rate cut, so the dollar's room on the downside will be capped. However, there are no noteworthy factors lined in up August now the FOMC meeting has passed, so the euro/dollar pair will broadly trade in a range.

Masayuki Nakajima, Europe Treasury Department

British Pound – August 2024

Expected Ranges **Against the US$: US$1.2800–1.3100**
Against the yen: JPY195.00–208.00

1. Review of the Previous Month

The GBP/USD pair strengthened in July. This was mainly due to rising expectations for FRB rate cuts on deteriorating US employment indicators and a downswing in the US June CPI data, though sterling was also boosted by expectations for political stability in the UK and some firm economic indicators.

The currency pair rallied in the first week. The US June employment data was released on July 5. Nonfarm payrolls growth slowed and the figures for the previous two months were also revised downwards. With the unemployment rate also rising and average hourly wages growth slowing, the data was sluggish on the whole, with US interest rates sliding and the greenback weakening. The Labour Party scored a big victory in the UK general election on July 4. At 412 seats, it topped the number of seats needed for a majority (326), with the UK having a change of government for the first time since 2010, some 14 years ago. The result was as expected, so the market reaction was muted, though the news was broadly positive for the pound. The 14 years of Tory rule had been quite tumultuous, particularly in the second half with Brexit and so on, so the pound was boosted by expectations for political stability now Labour had gained a stable majority. With the Scottish National Party (SNP) also losing many seats, the risk of a renewed push for Scottish independence also receded.

The GBP/USD pair rose sharply in the second week. The US June CPI data was released on July 11. At -0.1% m-o-m, the figure was down sharply on the +0.1% m-o-m forecast, with the greenback then falling globally. Furthermore, the currency was also impacted by the slight decline in market expectations for a commencement of rate cuts at the August BOE meeting. On July 10, the BOE's chief economist Huw Pill said the "when-rather-than-if" characterization of rate cuts was appropriate. In doing so, he signalled that the BOE's next move would be a rate cut while also voicing caution about the risk of persistent inflation.

The currency pair fluctuated sharply in the third week, though it fell by -0.5% overall. The pair was mainly swayed by factors on the US side. The week began with an assassination attempt on ex-president Donald Trump. This incident actually seemed to boost Trump's popularity, with the dollar buoyed as a result. However, in an interview with Bloomberg on July 16, the former president then complained about the dollar's strength (particularly against the yen and RMB), so the dollar was pushed back down.

Sterling moved with a heavy topside to weaken by around -0.4% against the dollar in the fourth week. The yen also rose sharply in the forex markets, with market participants apparently moving to adjust positions ahead of the summer holidays. As for UK economic indicators, the UK released some firm preliminary July PMIs, with the Manufacturing PMI up from 50.9 in June to 51.8 and the Services PMI from 52.1 to 52.4.

2. Outlook for This Month

In July, the pound had risen by +1.51% against the dollar and +0.55% against the euro as of July 30, though it had fallen by -3.61% against the yen.

At the time of writing (July 30), it seems 50/50 whether the BOE's Monetary Policy Committee (MPC) will implement a rate cut when it meets on August 1. The UK June CPI data revealed that services prices remained high, though wage growth (a leading indicator of service prices) was down on May. Furthermore, though the June retail sales data was down sharply on May, the preliminary July PMIs continued to rouse hopes for an economic recovery, with the figure related to service prices continuing to rise. As this show, economic indicators released in July gave off mixed signals. Transitory factors (with hotel prices in the June CPI data pushed up by the several UK concerts by the UK popular artist Taylor Swift, for example) have also played a role, and there are also concerns about the reliability of the employment data. In addition, Clare Lombardelli will join the MPC in August and there is considerable uncertainty about what her policy stance will be. Whether the MPC cuts rates or leaves them fixed, though, it seems the BOE will continue to manage policy cautiously on concerns that service prices might remain at highs. Sterling will probably move firmly against the dollar.

The pound has risen against the euro for five straight months. This is probably due to expectations for political stability and the comparative firmness of the UK economy. Support for the ruling parties is crumbling in major eurozone nations like France and Germany, but the Labour Party won a clear majority in the UK general election, so the UK could be in for a period of political stability. Furthermore, the preliminary July PMIs revealed that the eurozone (and Germany in particular) is struggling to emerge from crisis mode. In contrast, the UK's Manufacturing and Services PMIs both topped 50, with the UK economy moving relatively strongly. This pound will probably move firmly for now on the different political and economic situation in the eurozone and the UK.

After hitting 203.39 yen at the end of June, the GBP/JPY pair rose to 208.11 yen by July 11, though it then fell by over ten yen to slide to 195.86 yen by July 25. The pound then strengthened and the yen weakened again, with the pair climbing to the 199 yen level as of July 30, though the yen moved bullishly again on the same day on expectations for a BOJ rate hike. The moves up until July 25 were mainly due to an unwinding of "carry trades," whereby the pound was bought as a high-interest currency and the yen sold as a low-interest currency. Even if UK/Japanese interest-rate differentials shrink, they will probably remain quite wide, so these recent moves probably represent a temporary adjustment amid the long-term trend of pound bullishness and yen bearishness. However, there are a lot of carry trade positions, so in the short term the pound may well weaken and the yen strengthen again.

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

Australian Dollar – August 2024

Expected Ranges **Against the US$: US$0.6360–0.6760**
Against the yen: JPY95.50–100.50

1. Review of the Previous Month

The AUD/USD pair kicked off July trading around $0.6670 before rising to around $0.68 mid-July. However, it then fell to the lower-$0.65 level towards the month's end. US interest rates rose at the start of the month on concerns that Donald Trump might become the next US president, though rates then fell when FRB chair Jerome Powell indicated that the US labor market was cooling off appropriately. The currency pair was also pushed up by the better-than-expected results of Australia's May retail sales data and some bearish US indicators. The US June employment was released on July 5. The nonfarm payrolls data for the previous two months was revised downward and the average hourly wages figure also slowed, with US interest rates then falling. The AUD/USD pair edged up to the mid-$0.67 handle as a result.

The US June CPI data was released on July 11 and it suggested that inflation was slowing. With expectations for a September rate cut growing, the greenback was sold and the currency pair rose to just below $0.68. The pair had traded in a range up until then, though, so the Australian dollar was then sold for profit taking, with the pair dropping back to the mid-$0.67 level. With the USD/JPY pair then dropping from 161.60 yen to 157.40 yen, the AUD/JPY pair also weakened from 109.20 yen to 107 yen. As speculation smoldered that the Bank of Japan (BOJ) would carry out a "rate check," the USD/JPY pair dropped from the lower-159 yen handle to the lower-157 yen level on July 12, with the AUD/JPY pair also sliding from the upper-107 yen handle to the upper-106 yen range.

China released some worse-than-expected 2Q GDP data (y-o-y) and June retail sales data on July 15, with the AUD/USD pair then falling to the mid-$0.67 handle on the apparent sluggishness of Chinese domestic demand. US interest rates rose on the firm results of the US June retail sales data on July 16. With copper prices also falling, the currency pair slid to the lower-$0.67 level. Australia's June employment data pointed to the firmness of the labor market on its release on July 18. The pair was also pushed up slightly by expectations for a rate hike at the next RBA meeting, though it then dropped below $0.67 for a time on bearish US stock movements. The pair was then pushed down to $0.6681 on July 19.

China unexpectedly lowered its loan prime rate on July 22. The RMB was sold and the Australian dollar also weakened, with the AUD/USD pair then falling to around $0.6640 on rising US interest rates. It then fell to around $0.6610 on July 23. The yen then soared as Japanese officials made comments about monetary policy normalization, with the AUD/JPY pair tumbling to around 102.95 yen. Risk aversion grew on July 24 on bearish commodity prices and an unwinding on yen carry trades, with the currency pair dipping to $0.6578. The yen was also pushed up by speculation about BOJ rate hikes, with the AUD/JPY pair dropping from the 103 yen range to the 101 yen range. Risk aversion continued on July 25 and investors tested the AUD/USD pair's downside, with the pair slipping to $0.6515 for a time. The yen was then buoyed by position adjustments ahead of the BOJ meeting, with the AUD/JPY pair temporarily weakening to the lower-99 yen handle. Stock prices then rose when the preliminary US 2Q GDP data showed the economy growing faster than expected. The AUD/USD pair was also buoyed by this trend to rise to around $0.6540. The US June PCE data was released on July 26 and the result was broadly as expected, with the currency pair then climbing to around $0.6550 on rising expectations for a September US rate cut.

2. Outlook for This Month

The AUD/USD pair's room on the downside could widen in August, so caution will be needed. There are several reasons for this prognosis, including sluggish Chinese domestic demand and renewed geopolitical risk, with expectations for a rate hike at the August RBA meeting also waning after the trimmed mean figure deteriorated in Australia's 2Q CPI data.

China's June CPI figure stood at +0.2% y-o-y. It was thought that the data would be impacted by the base effect, but it was nonetheless down on the previous month and on forecasts. China's June Producer Price Index (PPI) was also down -0.8% y-o-y. This data pointed to the weakness of Chinese domestic demand and the pressure on corporate earnings. At +4.7%, China's 2Q GDP (y-o-y) was down on the previous quarter's +5.3% figure. Real estate investment remained in the doldrums, with consumption also moving sluggishly. With China's June retail sales data also deteriorating, it became clear that the Chinese economy was slowing. All these indicators point to the sluggishness of Chinese domestic demand, with this likely to weigh down the Australian dollar. Furthermore, on July 22 the People's Bank of China lowered its 7-day reverse repo rate and loan prime rate to help boost economic growth. The fact the bank didn't wait for the FRB to lower rates suggests the Chinese government is worried about the headwinds facing the Chinese economy. With US rate cuts finally looming into view, it is possible that China might lower rates again. If it does so, the RMB will be pushed lower and the Australian dollar will follow suit.

As for geopolitical risk, on July 30 Israel attacked the Lebanese capital Beirut with the aim of killing the head of the pro-Iran militia Hezbollah. This came in response to an earlier rocket attack on the Golan Heights on July 27. With geopolitical tensions rising, investors bought safe assets like US treasuries and gold. With US treasury yields, US stocks and risk assets all falling, the Australian dollar is also moving sluggishly. There are concerns that geopolitical risk might accelerate, with this perhaps leading to all-out war.

When Australia's 2Q CPI data was released on July 31, it revealed that goods and services inflation had accelerated on a y-o-y basis. However, trimmed mean growth was down, so expectations for a rate hike at the August RBA meeting waned, with the AUD/USD pair dropping to the $0.64 range. With the main drivers of Australian-dollar bullishness disappearing, investors might test the AUD/USD pair's downside going forward. The RBA board will be meeting on Tuesday, August 6. The board still has room for rate hikes, but most market participants are expecting rates to be left unchanged and there have been no moves to price in rate hikes. As such, the currency pair will probably have its downside tested in August.

The yen was also bought in August as yen interest rates rose on the BOJ's decision to implement a 0.25% rate cut and scale back its JGB purchases. The AUD/JPY pair fell to the 97 yen range, down 12 yen from its mid-July high of 109 yen. If the BOJ signals that it might hike rates again, the yen will probably strengthen again after a round of profit taking.

Mizuho Ashizaki, Canada Treasury Office, Americas Treasury Department

Canadian Dollar – August 2024

Expected Ranges **Against the US$: C$1.3500–1.3900**
Against the yen: JPY108.00–116.00

1. Review of the Previous Month

The US dollar was bought on July 2 when the US May JOLTS Job Openings figure topped expectations. However, the USD/CAD pair then fell to C$1.3668 when FRB chair Jerome Powell made dovish comments during an ECB forum that "the disinflation trend shows signs of resuming."

The US June Non-manufacturing ISM Report on Business unexpectedly dropped below 50 on its release on July 3. With the ADP National Employment Report and the US new applications for unemployment insurance data also deteriorating, the greenback moved bearishly and the currency pair weakened to the lower-C$1.36 level. The US June employment data was released on July 5. The nonfarm payrolls figure beat expectations, but the data for two previous month's was revised downwards. With the unemployment rate worsening for the third straight month and wage growth slowing, the data suggested US labor market conditions were growing looser. However, Canada's June unemployment rate also hit a 29-month high, so the Canadian dollar was sold to the mid-C$1.36 level against its US counterpart.

The US June CPI data was released on July 11, with the headline and core figures both down on forecasts. As expectations grew for a September FRB rate cut, the USD/CAD pair temporarily hit a monthly low of C$1.3589.

The US dollar was bought on July 15 when it seems more likely that Donald Trump would win the November presidential election after he survived an assassination attempt.

With China's 2Q GDP data also slowing and crude oil prices falling, the Canadian dollar was sold and the currency pair strengthened to the upper-C$1.36 mark.

Canada's June CPI data was released on July 16, with the headline and core figures both down on forecasts. As expectations grew for a Bank of Canada (BOC) rate cut, the pair topped C$1.37, though its topside was held down by dovish comments from an FRB official suggesting 2024 rate cuts. News emerged on July 21 that US president Joe Biden had pulled out of the presidential race. This led to a flurry of Trump trades on expectations that Donald Trump would win the election, so the currency pair broke above the mid-C$1.37 level.

The BOC lowered its policy rate by 0.25% to 4.5% when it met on July 24. The Canadian dollar was sold and the USD/CAD pair rose to around C$1.381. The preliminary US 2Q GDP data was released at the month's end and it pointed to the firmness of the US economy. With the USE core PCE deflator also rising at a slightly faster pace, the greenback was bought and the pair topped the mid-C$1.358 mark. The pair then moved in a range as a wait-and-see mood prevailed ahead of the FOMC meeting.

2. Outlook for This Month

As expected, the BOC raised rates by 0.25% for the second straight meeting when it met in July, with its policy rate lifted to 4.50%. If the inflation rate continues falling in line with the BOC's projections, the BOC has indicated that it would be appropriate to expect more rate cuts. At the same time, though, with inflation being pushed up by the rising price of housing and other services, for example, the BOJ maintained that any future monetary policy decisions would depend on the data.

The BOC also expressed concerns about the weakness of the overall economy, as evinced by a slide in household spending. With the BOC aiming for 2% inflation and with the problem of oversupply growing, it seems downside risks are playing a greater role in the BOC's monetary policy deliberations. The BOC pays close attention to the core inflation rate. This is expected to slow to around 2.5% in the latter half of 2024, with inflationary pressures set to gradually ease throughout 2025. Household spending and capital investment look set to recover as borrowing costs fall. With exports also moving firmly, GDP growth will probably accelerate from late 2024 to 2025, with growth expected to hit 1.2% in 2024, 2.1% in 2025, and 2.4% in 2026. Market bets on a rate cut at the September BOC meeting have risen to around 70%.Expectations for rate cuts will be swayed substantially by the release of the Australian employment data on August 9 and the CPI data on August 20.

US political trends will also impact the markets more as the November presidential election draws closer. If Donald Trump is re-elected, his policies will probably push inflation and interest rates higher, with the US dollar likely to strengthen.

Speculation about a September FRB rate cut will be swayed by the release of the US employment data on August 2 and the CPI data on August 14.

Furthermore, FRB chair Jerome Powell's speech at the August 22–24 Jackson Hole symposium will attract a lot of attention, with Mr. Powell expected to drop some hints about a September rate cut.

Investors should pay attention to the US presidential election in August too. President Biden has withdrawn from the presidential race, with vice president Kamala Harris likely to be chosen as the Democratic candidate ahead of the Democratic National Convention over August 19–22. Donald Trump's ascendancy might stall, with this potentially pouring cold water on the greenback's bullishness.

With Canada and the US both monitoring the data before making any decision on rate cuts, the markets will react sensitively to the results of economic indicators and comments by officials. If the US labor market deteriorates and its economy slows, the US dollar is likely to fall sharply on rising expectations for rate cuts. The USD/CAD pair looks set to trade between C$1.3500–1.3900 in August.

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

Korean Won – August 2024

Expected Ranges	**Against the US$: KRW 1,360–1,400**
	Against the yen: JPY 10.79–11.47 (KRW100)

1. Review of the Previous Month

The USD/KRW pair mainly hovered around KRW1380 in July.

The pair opened the month trading at KRW1382.0. US long-term interest rates rose over July 2–3 on growing concerns about large-scale US tax cuts and a growing fiscal deficit when it seemed that Donald Trump was on track to win the US presidential election. South Korean's June CPI data then fell below market expectations, with the currency pair rising temporarily to KRW1391 as investors focused on widening interest-rate differentials. However, the US released a weak economic indicator on July 3, so the pair fell to around KRW1380 on July 4. The pair remained bearish on July 5 and it weakened to KRW1376 for a time.

The pair opened the following week trading at around KRW1376 on July 8. Amid a dearth of factors, the pair rallied to KRW1380 on real-demand buying. The RMB weakened on falling Chinese inflation from July 9 onwards. The won was also pulled lower, with the USD/KRW pair climbing to KRW1388. As expected, the BOK kept its policy rate fixed at 3.50% when it met on July 11. However, it did not drop any concrete hints about the commencement of rate cuts, so the won was bought. The greenback was also sold during overseas trading time when the US June CPI data fell below forecasts, with the currency pair tumbling to around KRW1370. Dollar selling eased on July 12, with the pair closing around KRW1375.

It opened the following week trading at around KRW1377 on July 15. Donald Trump's approval rating had risen over the weekend after an assassination attempt during a speech, so the dollar was then bought, just like it had been at the start of the month, with the pair climbing to KRW1387 toward July 16. The greenback was sold as interest rates fell from July 17–18 on expectations for a commencement of US rate cuts, with the pair sliding to the mid-KRW1370 level. The euro then weakened and the greenback was bought after the ECB Governing Council meeting, with the pair climbing to KRW1390 during overseas trading time on July 19.

The pair opened the next week trading at KRW1389 on July 22. Its topside was weighed down when it approached the key KRW1400 mark, but the won then faced selling pressure as funds flowed out of South Korean stock markets when hi-tech stocks tumbled. The pair continued floating in the mid-KRW1380 range. The 2Q GDP data was released on July 25, with the data contracting on the previous quarter for the first time in 18 months, so the won moved somewhat bearishly and the pair closed around KRW1385 on July 26.

The pair moved with a lack of direction the following week ahead of some major central bank meetings over July 29–30 and the release of some economic indicators from the middle of the week. The pair opened at around KRW1385 on July 29 and it was moving at KRW1385.3 as of 15:30 on July 30.

2. Outlook for This Month

The USD/KRW pair will probably float in the upper-KRW1300 range in August.

In its statement released on July 11, the BOK said that "while maintaining a restrictive monetary policy stance for a sufficient period of time, the Board will examine the timing of a rate cut." In his press conference, BOK governor Rhee Chang-yong said two members had called for a rate cut within the next three months, with the remaining four members saying rates should be left unchanged. If South Korea cuts rates before the US, the won will probably weaken on widening interest-rate differentials. Furthermore, housing transactions have also increased in anticipation of future rate cuts, with household debt surging, so this will be further reason why the BOK will be hesitant to lower rates. Some observers believe the BOK will start cutting rates at the August meeting, but the BOK will probably conduct operations cautiously with an eye on external factors, and it seems more likely that the BOK will wait until the US starts lowering rates before it moves in that direction.

Real demand remains ebullient, with exports up +5.1% y-o-y in June. Growth was propelled by the semiconductor and IT sectors. The trade balance remained in the black for the 13th straight month. At around $8 billion, the trade surplus ballooned to its highest level since September 2020. It is concerning that the 2Q GDP data contracted on the previous quarter on weak consumer spending and so on, but the 2Q downswing was largely a reaction to the great result recorded in 1Q, with bullish exports likely to support won buying when policy rates fall in future.

Given the above, it seems the pair will trade with a lack of direction, with factors likely to be thin on the ground over the summer dry season once several major events at the start of August are out of the way. As such, the pair is expected to mainly trade in a range between KRW1370–1390.

Kazuki Hisamoto, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – August 2024

Expected Ranges **Against the US$: NT$32.30–33.30**
Against the yen: JPY4.50–4.75

1. Review of the Previous Month

The USD/TWD pair rose in July.

The pair opened the month trading at TWD32.470 on July 1. With a US presidential election looming, US interest rates rose when it seemed more likely that Donald Trump would win. The greenback was bought and the currency pair climbed to the upper-TWD32.60 mark. However, the US then released some bearish economic indicators, including the June ADP National Employment Report, June Non-manufacturing ISM Report on Business, and June employment data, so the US dollar was sold and the pair temporarily fell to TWD32.395.

In a speech during overseas trading time on July 9, FRB chair Jerome Powell did not show much enthusiasm for rate cuts, so the US dollar rose across the globe. The US June CPI data was then released during overseas trading time on July 11. The data was down on market forecasts, but the currency pair still moved firmly around TWD32.50. With Donald Trump making more strong statements, Taiwanese stocks plummeted as risk sentiments deteriorated on concerns about geopolitical risk. As overseas investors sold Taiwanese stocks, the greenback was bought and the currency pair strengthened to TWD32.60.

The US July Philadelphia Federal Reserve Manufacturing Activity index was released during overseas trading time on July 18, with the data up on market expectations and US interest rates then rising. With Taiwanese listed companies also making dividend payments on July 19, the Taiwan dollar was sold at a faster pace. A major US semiconductor company released some worse-than-expected settlement results towards the end of the month. As US hi-tech stocks fell, Taiwanese stocks also fell at a faster pace. The Taiwan dollar was sold and the USD/TWD pair temporarily hit TWD32.895 for the first time in around eight years.

2. Outlook for This Month

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

With a US presidential election looming, the prospect of a Donald Trump victory is growing, with Asian currencies being sold on rising geopolitical risk in July. Risk sentiments also deteriorated at a faster pace after a US hi-tech company released some worse-than-expected settlement results. The US released some bearish June CPI data, with US interest rates also plummeting after former New York FRB president William Dudley said the FOMC should start cutting rates. However, the Taiwan dollar continued to face deep-rooted selling pressure, with the USD/TWD pair hitting TWD32.895, its highest level in around eight years.

The pair looks set to move flatly in August. Taiwan's central bank will not be meeting to set policy this month, but with US economic indicators showing signs of slowing, expectations are growing for rate cuts, with the greenback likely to face downward pressure across the board. On the fund supply and demand front, Taiwanese listed companies will be making dividend payments up until August, with Taiwanese stocks also falling. If overseas investors continue to pull investment funds out of Taiwan, the Taiwan dollar will be susceptible to selling. As such, it seems the pair will move flatly with a lack of direction this month.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – August 2024

Expected Ranges **Against the US$: HK$ 7.7800–7.8200**
Against the yen: JPY 19.00–20.00

1. Review of the Previous Month

Hong Kong dollar spot exchange market in July

The HKD spot entered a range trading between 7.800 and 7.815 level. While the re-pricing of Fed's rate cut in September and ongoing dividend payouts flow provided support to the HKD, the capital outflow pressure put a lid on the HKD rally. The Hang Seng Index extended its correction towards 17,000 level as investors' appetite on China and HK investments worsened due to sluggish China data and the lack of large stimulus measures after the Third Plenum meeting. The pick-up in Southbound Connect inflow highlighted onshore investors' interest in HK investments, but the inflow size was not large enough to fuel the HKD rally. Following the half-year end, the HKD liquidity condition eased initially but remained generally stable. With the HKD T/N forward points hovering around -1.5points per day, market participants maintained their long USD/HKD spot carry trade position. IPO activities ticked up in June but overall market sentiment remained subdued. The HK growth outlook worsened again, as retail sales dropped for 3 straight months due to buoyant outbound consumption across the border. HK PMI also remained below 50 expansionary mark for 2 consecutive months. The HK property market was still struggling in the downturn, with the Centa-City Leading Index sliding to its more-than-7-year low. That said, the rebound after the removal of home purchase restrictions evaporated and the housing market has not yet bottomed out.

Hong Kong dollar interest rate market in July

The HKD HIBOR curve came off modestly after the half year-end. 1-month tenor remained steady at around 4.6% due to the continuous dividend payouts flow until August-end, while 3-month tenor slipped by 10bps to around 4.6% given the likely Fed's rate cut in September. Against the USD rates, 1-month and 3-month HKD HIBOR – USD SOFR swap rate spread held steady at around -70bps and -60bps, respectively. Subdued HKD loan demand and a bearish outlook on China/HK investment were seen as the reasons behind the negative HKD-USD rate spread. On the liquidity front, the HKMA aggregate balance remained largely unchanged at near HKD 45bn without FX intervention. In the medium term, the HKD IRS curve dropped due to mounting expectations for Fed's sooner rate cut. As a result, the HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD HIBOR) widened further to +100bps from +75bps.

2. Outlook for This Month

Hong Kong dollar spot exchange market in August

The HKD spot is expected to fluctuate around 7.8 level in the coming month. Despite the sooner Fed's rate cut, history suggested that the HKD spot would hold steady Fed's insurance rate cut cycle in 2019, unless the Fed slashed rates aggressively to address a crisis like in 2020. The ongoing dividend payouts flow and Southbound

Stock Connect flow should provide support to the HKD spot, but the positive impact will be offset by foreign capital outflow pressure due to the cut in China and HK investments. As the Trump trade gains momentum, foreign investors will turn more cautious on HK investments. The upcoming IPO projects are not likely to boost HKD demand significantly given the souring sentiment in HK equities.

Hong Kong dollar interest rate market in August

With the HKD spot unlikely to hit 7.75 in coming months, HKD aggregate balance will remain broadly unchanged and HK banks will probably not cut the prime rate after the Fed's first rate cut. The dividend payouts flow will also provide support to front-end HKD rates. However, longer-end HKD rates will likely drop further due to the looming Fed's rate cut cycle. Overall, HKD rates will continue to trade at a discount against USD rates due to weak HKD loan demand, but the negative HKD-USD rate spread is expected to narrow when the Fed starts to cut rates.

Sae Sueyoshi, Treasury Department, MHBK (China)

Chinese Yuan – August 2024

Expected Ranges	**Against the US$: CNY 7.2000–7.3000**
	Against the yen: JPY 20.00–22.20

1. Review of the Previous Month

In July, the U.S. dollar/Chinese yuan exchange rate remained high before a temporary sharp fall at the end of the month.

On July 1, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 7.26 level. The June manufacturing Purchasing Managers' Index (PMI) of China turned out to fall below the 50 level for the second consecutive month, and this continued strengthening downward pressure on the Chinese yuan. On July 3, the People's Bank of China (PBOC) central parity rate rose to reach the CNY 7.13 level, following which the U.S. dollar/Chinese yuan trading exchange rate exceeded its high at CNY 7.2737, approaching the upper end of the daily fluctuation range. Thereafter, the June ADP employment statistics of the U.S. were released, revealing negative growth in labor-related indices, and this encouraged market participants to actively sell the U.S. dollar. As a result, the U.S. dollar/Chinese yuan exchange rate fell slightly, and trading closed at the CNY 7.26 level on July 5.

On July 8, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 7.26 level. During the first half of the week, the PBOC central parity rate was set toward a weak Chinese yuan, while the June Consumer Price Index (CPI) of China turned out to be weak. Consecutively, the Chinese yuan remained weak. On July 10, the U.S. dollar/Chinese yuan exchange rate rose to the upper-CNY 7.27 level, renewing its highest rate of the year. On July 11, market participations were cautious, as it was seen that the U.S. dollar/Chinese yuan exchange rate could peak, and they started to buy back the Chinese yuan more predominantly. Thus, during the day, the U.S. dollar/Chinese yuan exchange rate fell to the upper-CNY 7.26 level. Furthermore, on the same day local time in the U.S., the June CPI of the U.S. was announced, and the result turned out to be below the market estimate, while some media reported that the monetary authorities of Japan had intervened in the market by buying the Japanese yen. In reaction, market participants started to sell the U.S. dollar actively, which led the U.S. dollar/Chinese yuan exchange rate to rapidly fall below the CNY 7.25 level.

On July 15, the U.S. dollar/Chinese yuan exchange market opened at the lower-CNY 7.25 level. On the same day, the second-quarter GDP of China and the June major indices of China both turned out to be below the market estimate, and this led market participants to sell the Chinese yuan predominantly. As a result, the U.S. dollar/Chinese yuan exchange rate rose to the upper-CNY 7.26 level toward July 16. On July 17, the U.S. dollar/Japanese yen exchange rate fell sharply, which encouraged market participants to sell the U.S. dollar predominantly. Following this trend, the U.S. dollar/Chinese yuan exchange rate also fell to the lower-CNY 7.25 level. Thereafter, interest rates in the U.S. rose, which strengthened the U.S. dollar. Consequently, the U.S. dollar/Chinese yuan exchange rate rose to the upper-CNY 7.26 level.

On July 22, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 7.27 level. Before onshore market opening, the Chinese monetary authorities announced a decision to cut the seven-day reverse repo rate and the LPR. In reaction, downward pressure on the Chinese yuan strengthened temporarily in the offshore market. However, in the onshore market, the U.S. dollar/Chinese yuan exchange rate did not rise further than the upper end of the daily fluctuation range, fluctuating mainly at the lower-CNY 7.27 level. Thereafter, during nighttime trading hours on July 24, market participants actively bought the Japanese yen in the U.S. dollar/Japanese yen exchange market, which is highly correlated to the U.S. dollar/Chinese yuan exchange market. As a result, market participants also started to buy the Chinese yuan predominantly, and the U.S. dollar/Chinese yuan exchange rate fell to the lower-CNY 7.26 level. On July 25, the same trend persisted, and the U.S. dollar/Chinese yuan exchange rate once reached the mid-CNY 7.20 level. After a while, the fall of the U.S. dollar/Chinese yuan exchange rate slowed, and trading closed at the CNY 7.25 level on July 26.

On July 29, market participants continued buying the U.S. dollar, and the U.S. dollar/Chinese yuan exchange market closed trading at the CNY 7.26 level.

2. Outlook for This Month

In August, the Chinese yuan is forecast to weaken, while the U.S. dollar is forecast to strengthen.

As of July 30, when this article was being written, a policy interest rate cut in the U.S. had been expected at the Federal Open Market Committee (FOMC) meeting in September, and this had already been reflected in the market. Even though market participants need to observe the attitude of the U.S. monetary authorities at the FOMC meeting to be held until July 31, the FOMC is likely to move toward policy interest rate cuts in the times ahead, which is a factor to lead the U.S. dollar/Chinese yuan exchange rate to fall. However, it is also worth noting that the interest rate differentials between the U.S. and China have not narrowed, as interest rates fell in China. Thus, the U.S. dollar/Chinese yuan exchange rate is likely to fall only to a limited extent.

On the other hand, in China, major domestic indices and the second-quarter GDP both turned out to be below the market estimate. It is thus difficult to say that economic recovery in China has been steady, especially if one looks at the real estate market. Under such circumstances, the PBOC decided to cut its seven-day reserve repo rate and LPR on July 22 and to cut the MLF interest rate on July 25. As downward pressure on interest rates in China has been growing, the Chinese yuan is likely to weaken against the U.S. dollar as well. Furthermore, the 20th Central Committee of the Communist Party of China convened its third plenary session from July 15 to July 18, announcing the promotion of Chinese modernization. In the times ahead, market participants should carefully observe economic policy based on the principles announced during this session.

However, it is also important to point out that the PBOC central parity rate has been holding at the CNY 7.13 level, as of this writing. Currently, the upper end of the 2% fluctuation range is just below the CNY 7.28 level. Even though the U.S. dollar/Chinese yuan exchange rate is expected to rise only to a limited degree in the times ahead, market participants should remain careful, as the U.S. dollar/Chinese yuan exchange rate may gradually renew the highest level of the year.

In addition, market participants should also carefully observe headlines related to the current account balance in China such as service deficit and trade surplus, as well as those related to the Presidential election in the U.S.

Ayaka Matsumoto, Asia & Oceania Treasury Department

Singapore Dollar – August 2024

Expected Ranges **Against the US$: SG$ 1.3200–1.3700**
Against the yen: JPY 110.00–118.00

1. Review of the Previous Month

In July, the Singapore dollar appreciated against the U.S. dollar.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange market opened trading at the mid-SGD 1.35 level. On July 3, the Non-Manufacturing ISM Report On Business of the U.S. was announced, revealing a result weaker than expected. Furthermore, on July 5, the June employment statistics of the U.S. were released with sluggish figures, which encouraged market participants to sell the U.S. dollar. Following this trend, the U.S. dollar/Singapore dollar exchange rate also started to fall gradually and reached the upper-SGD 1.34 level on July 5. Thereafter, the U.S. dollar/Singapore dollar exchange rate continued fluctuating in both directions at around the SGD 1.35 level, waiting for the announcement of the June Consumer Price Index (CPI) of the U.S. On July 9, Federal Reserve Board (FRB) Chair Jerome Powell avoided mentioning the specific timing of policy interest rate cuts at a congressional testimony, and this led interest rates in the U.S. to rise. However, this did not impact the U.S. dollar/Singapore dollar exchange market significantly.

On July 11, the June CPI of the U.S. was announced, attracting substantial attention in the market, and the result turned out to be +3.0% year-on-year, falling below the market estimate. As a result, more market participants expected the FRB to cut its policy interest rate at an early stage. Consequently, market participants sold the U.S. dollar rapidly, and the U.S. dollar/Singapore dollar exchange rate fell sharply to the lower-SGD 1.34 level. Thereafter, the June retail sales of the U.S. was announced on July 16 with a strong figure, which led the U.S. dollar/Singapore dollar exchange rate to rise to temporarily reach the mid-SGD 1.34 level. However, expectations for policy interest rate cuts persisted in the market, while Donald Trump made a remark to express concerns over the appreciation of the U.S. dollar. Thus, market participants continued selling the U.S. dollar.

On July 18, the Federal Reserve Bank of Philadelphia Business Outlook Survey of the U.S. turned out to be significantly below the market estimate, which led the U.S. dollar to appreciate. Following this trend, the U.S. dollar/Singapore dollar exchange rate rose to approach the mid-SGD 1.34 level, after which the U.S. dollar/Singapore dollar exchange rate continued fluctuating in both directions at the same level. On July 23, the June headline CPI of Singapore turned out to be +2.4% year-on-year, falling below the market estimate. However, there was little impact on the U.S. dollar/Singapore dollar exchange market.

On July 24, former president of the Federal Reserve Bank of New York Bill Dudley made a bullish remark about the policy interest rate cut, which led the U.S. dollar/Singapore dollar exchange rate to fall to the lower-SGD 1.34 level. On July 26, a MAS meeting was held. However, the existing monetary policy was maintained, as had been anticipated in the market, and thus it did not impact the U.S. dollar/Singapore dollar exchange market. Subsequently, there were few signs of movement in the market toward the end of the month, as a Federal Open Market Committee (FOMC) meeting was approaching, and the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range at the lower-SGD 1.34 level.

2. Outlook for This Month

In August, the Singapore dollar is forecast to strengthen against the U.S. dollar.

In July, the June CPI of the U.S. turned out to be below the market estimate, while FRB Chair Jerome Powell and other FRB officials have been making more remarks to suggest policy interest rate cuts, further fueling expectation for policy interest rate cuts in the market. Inflation pressure weakened gradually in the past several months, and the labor environment in the U.S. has been showing signs of slowdown. Under such circumstances, the U.S. dollar/Singapore dollar exchange market moved from U.S. dollar-selling to the appreciation of the Singapore dollar. The same trend is expected to persist in August.

In Singapore, a MAS meeting was held in July, and existing monetary policy was maintained for the fifth consecutive time, as had been anticipated in the market. At the meeting, the general inflation rate outlook for this year was cut from 2.5–3.5% to 2.0–3.0%. However, the MAS remained cautious about monetary easing, given the risks for the increase of domestic labor cost to accelerate inflation again. Also, the June headline CPI of Singapore was recently announced, and the result turned out to be +2.4% year-on-year—the lowest level in almost three years—which confirmed a slowdown in inflation. However, there has not been any specific action or remark about monetary easing. For these reasons, market participants are most likely to continue selling the U.S. dollar in the U.S. dollar/Singapore dollar exchange market, mainly because they expect the policy interest rate cuts in the U.S. to start soon.

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

Thai Baht – August 2024

Expected Ranges **Against the US$: THB 35.50–36.40**
Against the yen: JPY 4.20–4.35

1. Review of the Previous Month

In July, the U.S. dollar/Thai baht exchange rate fell, as it became more likely for the policy interest rate in the U.S. to be cut before the end of the year.

At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at the upper-THB 36 level. On July 3, the June ADP employment statistics of the U.S. and the Non-Manufacturing ISM Report On Business were announced, and both figures turned out to be below the market estimate. Furthermore, the number of new claims for unemployment benefits and the number of existing claims for unemployment benefits in the U.S. both revealed the weakening of the labor market in the country. As a result, market participants started to sell the U.S. dollar predominantly. On July 5, the June employment statistics of the U.S. were released with sluggish figures, which kept the U.S. dollar/Thai baht exchange rate low. The U.S. dollar/Thai baht exchange rate therefore fell to approach the mid-THB 36 level. It is also worth mentioning that a Thai government official made a remark regarding the monetary policy of Thailand, although this had impacted the U.S. dollar/Thai baht exchange market only to a limited degree.

In the middle of the month, the June Consumer Price Index (CPI) of the U.S. was announced on July 11, and both the headline CPI and the core CPI turned out to be below the market estimate. As a result, the U.S. dollar/Thai baht exchange rate fell in an accelerated manner, reaching the lower-THB 36 level. Thereafter, this trend slowed for a while. Subsequently, Federal Reserve Board (FRB) officials Adriana Kugler and Christopher Waller both made a dovish comment on July 16 and July 17, respectively, as a result of which the U.S. dollar/Thai baht exchange rate fell below the THB 36 level, temporarily reaching the upper-THB 35 level.

At the end of the month, the U.S. dollar/Thai baht exchange rate reached its lowest rate for the U.S. dollar and its highest rate for the Thai baht in approximately four months on July 17, after which the exchange rate rallied to approach the mid-THB 36 level. However, the trend did not last for a long time. The U.S. dollar/Thai baht exchange rate started falling again. Thereafter, the U.S. dollar/Thai baht exchange rate remained low, as U.S. economic indices turned out to be weak, including the June number of new housing sales of the U.S., announced on July 24. As a result, the U.S. dollar/Thai baht exchange rate fell to approach the THB 36 level. Since then, the U.S. dollar/Thai baht exchange rate has not been moving in any direction, as both the Bank of Japan and the Federal Open Market Committee (FOMC) are scheduled to hold monetary policy meetings at the end of the month.

2. Outlook for This Month

In August, the U.S. dollar/Thai baht exchange rate is forecast to remain low while fluctuating in line with expectations for policy interest rate cuts in the U.S.

As of the time when this article was being written, the outcome of the FOMC meeting that was held on July 30 and July 31 has not been announced. However, a majority of market participants expect the FOMC to postpone the policy interest rate cut. Under such circumstances, what market participants are waiting to see is whether a policy interest rate cut in September will be mentioned, as well as how much confidence FRB Chair Jerome Powell has with regard to the current condition of the labor market and inflation in the U.S. However, it is also important to point out that two policy interest rate cuts have already been reflected in the market. Thus, there will be little reaction in the U.S. dollar/Thai baht exchange market, unless the outcome of the FOMC meeting impacts the outlook for policy interest rate cuts in September and beyond. In order to understand the future trend in the U.S. dollar/Thai baht exchange market, market participants are to look out for not only the outcome of the FOMC meeting but also various economic indices such as the July employment statistics announced on August 2, as well as the contents of the Jackson Hole Economic Symposium scheduled for August 22 through August 24.

With regard to domestic factors in Thailand, there was some new information, such as that the registration of the beneficiaries would start on August 1 for the digital wallet initiative—a key policy by the government of Thailand. However, there has so far been very little impact on the U.S. dollar/Thai baht. With regard to monetary policy, no major central bank is scheduled to have a monetary policy meeting in August. Under such circumstances, the central bank of Thailand is scheduled to have its monetary policy committee meeting on August 21. Even though it is difficult to expect the central bank of Thailand to make any significant change to the existing monetary policy, market participants are to pay close attention to the details such as the contents of the central bank statement, as there has been a change in the market trend since the previous meeting in June. However, as was the case at the last central bank meeting, the impact on the U.S. dollar/Thai baht exchange market is likely to be minimal, unless there is any unexpected situation in the market.

Given the above factors, the U.S. dollar/Thai baht exchange rate has been fluctuating not based on domestic factors in Thailand but based on monetary policy in the U.S. If this is really the case, the U.S. dollar/Thai baht exchange rate is likely to remain low for an extended period of time. However, it is important to point out that policy interest rate cuts in the U.S. are expected before the end of the year, and this has already been reflected in the market to a great extent. Thus, the fall of the U.S. dollar/Thai baht exchange rate is likely to be limited compared to the previous months.

Kazuhiro Suzuki, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – August 2024

Expected Ranges **Against the US$: MYR 4.54–4.67**
Against the yen: JPY 32.00–34.00

1. Review of the Previous Month

In July, the Malaysian ringgit reached its highest rate against the U.S. dollar since January 2024, as the expected timing of the policy interest rate cut in the U.S. was moved forward.

In July, the U.S. dollar/Malaysian ringgit exchange market opened trading at around the MYR 4.71 level. As the manufacturing industry business confidence index of Malaysia turned out to be weaker than expected and as the number of new job offers in the U.S. turned out to be stronger than expected, the U.S. dollar/Malaysian ringgit exchange rate remained high on July 2 and July 3. However, indices related to business confidence in the U.S. turned out to be significantly weaker than expected before the July 4 national holiday in the U.S., and this led interest rates in the U.S. to fall. As a result, the U.S. dollar/Malaysian ringgit exchange rate also fell below the MYR 4.71 level. On July 5, the U.S. dollar/Malaysian ringgit exchange rate fluctuated only to a limited degree during the day, as the June employment statistics of the U.S. were to be announced shortly. Subsequently, the employment statistics of the U.S. turned out to be stronger than expected. However, the May employment statistics of the U.S. were revised significantly downward. Thus, the U.S. dollar/Malaysian ringgit exchange market did not see violent fluctuations after the weekend.

In the middle of the month, the central bank of Malaysia, Bank Negara Malaysia (BNM), held a monetary policy committee meeting, and the policy interest rate was maintained at 3.00%, as had been anticipated in the market. The domestic economy of Malaysia was also evaluated positively, which had also been anticipated in the market. Thus, the outcome of the meeting was more or less as expected, and there was little impact on the U.S. dollar/Malaysian ringgit exchange market. However, the June CPI of the U.S. did not reach the market estimate for the second consecutive month, recording negative year-on-year growth. As a result, the expected timing of the policy interest rate cut in the U.S. was brought forward, and the depreciation of the U.S. dollar accelerated. Thereafter, the expected inflation rate of the U.S. fell, keeping the U.S. dollar from appreciating. On July 18, the June trade statistics of Malaysia were released, revealing a slowdown in the growth in exports. However, market participants paid more attention to falling interest rates in the U.S., and the U.S. dollar/Malaysian ringgit exchange rate remained at around the MYR 4.66 level. Yet, the exchange rate did not fall further than the MYR 4.66 level, and thus the fluctuation range did not change. Then, on July 19, the second-quarter GDP of Malaysia was announced, and the result turned out to be +5.8% year-on-year, significantly exceeding the market estimate. However, long-term interest rates in the U.S. continued to rise, and the U.S. dollar/Malaysian ringgit exchange rate rallied before the end of the week.

At the end of the month, the People's Bank of China (PBOC) decided to cut its policy interest rate, which was not expected in the market. Due to concerns over the economic outlook of China, many Asian currencies weakened as a result. However, the Malaysian ringgit did not follow this trend, and the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating at around the MYR 4.68 level. The June Consumer Price Index (CPI) of Malaysia turned out to be unchanged from the May result and thus did not impact the market significantly. However, during the second half of the week, the Malaysian ringgit strengthened, and the U.S. dollar/Malaysian ringgit exchange rate reached the upper-MYR 4.65 level. Subsequently, the second-quarter GDP of the U.S. turned out to be stronger than expected, while the number of new unemployment benefit claims recorded a decrease, which was considered to be a factor toward strengthening the U.S. dollar. However, the U.S. dollar/Malaysian ringgit exchange rate remained at the MYR 4.65 level. The U.S. dollar remained at its lowest rate against the Malaysian ringgit since the middle of January this year until the end of the month. In the last week of the month, the U.S. dollar/Malaysian ringgit exchange rate continued falling gradually, while market participants were waiting for the outcome of important central bank events such as the Bank of Japan meeting and the Federal Open Market Committee (FOMC) meeting. On July 30, the U.S. dollar/Malaysian ringgit exchange rate once reached the MYR 4.61 level.

2. Outlook for This Month

In August, the U.S. dollar/Malaysian ringgit exchange rate is forecast to remain low, as the U.S. dollar is expected to weaken in the times ahead, unless there are new factors to change this trend during the key events at the end of the month.

As of the time of this writing, the outcome of the FOMC meeting has not yet been announced. However, according to the market consensus, there is not likely to be any surprising change to existing monetary policy in the U.S. with little impact on the U.S. dollar/Malaysian ringgit exchange market. At the beginning of July, Federal Reserve Board (FRB) Chair Jerome Powell made a remark to emphasize that the U.S. economy was not overheating based on the latest economic indices in the U.S. Furthermore, the U.S. Economic Surprise Index has been largely negative, and other economic indices of the U.S. that are to be announced in the times ahead are likely to confirm the effectiveness of the FRB's measures against inflation.

With regard to domestic factors in Malaysia, the country's economic indices have been relatively strong since the U.S. dollar/Malaysian ringgit exchange rate rose to approach the MYR 4.80 level in February and April 2024. In addition, the central bank of Malaysia, BNM, positively evaluated the domestic personal consumption of Malaysia for its steadiness, at its monetary policy committee meeting held in July. Reflecting such circumstances, the second-quarter GDP of Malaysia turned out to be +5.8%, exceeding 5%, the upper end of the target range set out by the government, even though it is still a preliminary figure. It therefore seems reasonable to say that downward pressure on the Malaysian ringgit, which strengthened in the first half of this year, has weakened. It goes without saying that it would take more time to access the political achievement of the government under Prime Minister Anwar Ibrahim, as he only came to power last year. If the progress of the 10-year plan of MADANI Economy is not so desirable, it could weaken the Malaysian ringgit. However, such a trend is unlikely to surface all of a sudden. Thus, it is expected that the Malaysian ringgit will not start depreciating for the time being.

It is also worth noting that in August, there will be few transactions in the market, as many market participants will be on summer holiday. Thus, it is considered that there will be no significant moves in the U.S. dollar/Malaysian ringgit exchange market after the FOMC meeting and the announcement of the employment statistics of the U.S. In addition, market participants are waiting to see the outcome of Jackson Hole Economic Symposium, to be held from August 22 to August 24. For this reason as well, there is no likely movement in the market until the end of August. In particular, market participants are waiting to hear remarks by FRB Chair Jerome Powell at Jackson Hole Economic Symposium, and depending on what he will say, the U.S. dollar could depreciate further against the Malaysian ringgit or market participants could stop selling the U.S. dollar, leading the U.S. dollar/Malaysian ringgit exchange rate to rise. Despite the significant potential impact on the market, it is not so likely for the FRB Chair Jerome Powell to change his attitude dramatically. Thus, it is more likely for the U.S. dollar/Malaysian ringgit exchange rate to remain low with market participants expecting the U.S. dollar to weaken in the times ahead.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – August 2024

Expected Ranges **Against the US$: IDR 16,000–16,450**
Against the yen: JPY 0.9259–0.9804 (IDR 100)

1. Review of the Previous Month

In July, the Indonesian rupiah appreciated against the U.S. dollar once, but the U.S. dollar/Indonesian rupiah exchange rate returned to the level seen at the beginning of the month thereafter.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the mid-IDR16,300 level on July 1. On the same day, the June Consumer Price Index (CPI) of Indonesia was announced, and the result turned out to be weaker than the market estimate. However, market participants reacted to this news only to a limited degree, and the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating at the mid-IDR 16,300 level. On July 2, interest rates rose in the U.S., encouraging market participants to buy the U.S. dollar. Under such circumstances, the Indonesian rupiah weakened against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 16,400 level. However, the U.S. dollar/Indonesian rupiah exchange rate did not rise further, and the depreciation of the Indonesian rupiah slowed gradually thereafter. On July 10 local time in the U.S., interest rates fell in the U.S. based on congressional testimony by Federal Reserve Board (FRB) Chair Jerome Powell. Following this trend, the U.S. dollar weakened, and the Indonesian rupiah appreciated, leading the U.S. dollar/Indonesian rupiah exchange rate to approach the IDR 16,200 level. On July 11 local time in the U.S., the June CPI of the U.S. was announced, and the result turned out to be below the market estimate, which accelerated the depreciation of the U.S. dollar further. As a result, the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 16,100 level on July 12 local time in Asia.

In the following week, the U.S. dollar appreciated on July 15, in reaction to the attack on Donald Trump, which weakened the Indonesian rupiah, bringing the U.S. dollar/Indonesian rupiah exchange rate to the upper-IDR 16,100 level. However, on July 16, the following day, local time in the U.S., FRB official Adriana Kugler made a remark that it was likely for the FRB to cut its policy interest rate before the end of the year with a further slowdown in inflation and the labor market. As a consequence, market participants started actively selling the U.S. dollar again. On July 17, the U.S. dollar depreciated, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 16,100 level—the monthly low for the U.S. dollar. On the same day, the central bank of Indonesia held a monetary policy meeting and decided to maintain their policy interest rate at the existing level, as had been anticipated in the market. In reaction to this outcome, the Indonesian rupiah appreciated slightly, but impact was minimal. Thus, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range mainly at the IDR 16,100 level. Then, on July 22, the Chinese yuan depreciated, which led the Indonesian rupiah to weaken as well, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 16,200 level. On July 24, stock prices, especially those of U.S. tech companies, fell, which strengthened risk-averse sentiment in the market. As a result, the Indonesian rupiah depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 16,200 level on July 25—the following day. On the same day local time in the U.S., the April–June quarterly GDP of the U.S. (preliminary figure) was announced, and the result exceeded the market estimate, which accelerated the exiting trend in the market. As a consequence, the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 16,200 level. Toward the end of the month, pressure to sell the Indonesian rupiah strengthened based on actual demand, and the Indonesian rupiah depreciated further, leading the U.S. dollar/Indonesian rupiah exchange rate to reach the lower-IDR 16,300 level, at which level the U.S. dollar/Indonesian rupiah exchange market closed trading in July.

2. Outlook for This Month

In August, the Indonesian rupiah is forecast to remain robust.

The central bank of Indonesia held a monetary policy meeting in July and decided to maintain their policy interest rate at the existing level while confirming its confidence about the stability of the Indonesian rupiah. The Indonesian rupiah reached an all-time low against the U.S. dollar in June at the mid-IDR 16,400 level, after which it started appreciating against the U.S. dollar in July. The central bank of Indonesia explained that the current stability of the Indonesian rupiah was based on capital inflow based on attractive returns on investment as well as on expectation for the U.S. to cut their policy interest rate at an earlier timing.

It is also worth noting that the June CPI of Indonesia turned out to be +2.51% year-on-year, falling below the market estimate. Furthermore, the core CPI turned out to be +1.90% year-on-year, approaching the lower end of the inflation target range set out by the central bank of Indonesia (+1.5%). Given such a situation, it seems that it's the right time to consider cutting the policy interest rate.

However, despite the slowdown in the depreciation of the Indonesian rupiah and the falling inflation rate, it is unlikely for the central bank of Indonesia to cut its policy interest rate right away. It is true that the Indonesia rupiah has been stronger compared to June this year. However, at the time of the central bank meeting held in April, the governor of the central bank of Indonesia, Perry Warjiyo, expected the U.S. dollar/Indonesian rupiah exchange rate to fluctuate at around the IDR 16,000 level on average during the third-quarter period from July to September. Thus, it can be said that the Indonesian rupiah has been weaker than the expected level. Because the central bank of Indonesia maintains an attitude to prioritize the stability of the currency, the central bank is likely to maintain its existing monetary policy until it confirms not only the actual policy interest rate cut in the U.S. but also the appreciation of the Indonesian rupiah to the level indicated in April.

The Indonesian rupiah is therefore forecast to continue gradually appreciating against the U.S. dollar in August, while the U.S. dollar continues depreciating in anticipation of policy interest rate cuts in the times ahead.

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

Philippine Peso – August 2024

Expected Ranges **Against the US$: PHP 57.50–59.00**
Against the yen: PHP 0.370–0.390

1. Review of the Previous Month

In July, the U.S. dollar/Philippine peso exchange rate remained low, as the Philippine peso appreciated gradually.

In July, the U.S. dollar/Philippine peso exchange market opened trading at PHP 58.55. At the beginning of the month, a debate session was held between U.S. President Joe Biden and former U.S. President Donald Trump, in reaction to which long-term interest rates in the U.S. rose significantly. Following this trend, the U.S. dollar/Philippine peso exchange rate also rose, but the rise slowed when the exchange rate exceeded the PHP 58.80 level. In June as well, the U.S. dollar/Philippine peso approached the PHP 59 level, the psychological turning point, many times, without actually exceeding the level. This time as well, the U.S. dollar/Philippine peso exchange rate did not exceed this level.

From the beginning to the middle of the month, major economic indices of the Philippines were released, and there was no significantly negative figure. The June Consumer Price Index (CPI, year-on-year) of the Philippines turned out to be +3.7%, while the previous result was +3.9% and the market estimate was +3.9%, putting an end to the constant rise seen for four consecutive months previously. Having seen this result, the central bank of the Philippines confirmed its achievement in controlling inflation pressures while suggesting once again the possibility of a policy interest rate cut in August for the purpose of boosting the economy. On the other hand, the economic indices of the U.S. turned out to be sluggish, and long-term interest rates in the U.S. fell. As a result, the Philippine peso recorded its seventh consecutive business day of appreciation on a closing-rate basis. The U.S. dollar/Philippine peso exchange rate fell to reach PHP 58.24—the lowest level since the end of May this year.

Toward the end of the month, some market participants bought the U.S. dollar, as the U.S. dollar/Philippine peso exchange rate was at the lower-PHP 58 level for the first time in a while, which was seen a good price to purchase the U.S. dollar. The U.S. dollar/Philippine peso exchange rate thus remained stable without falling further. Under such circumstances, former U.S. President Donald Trump expressed his concerns over the appreciation of the U.S. dollar, while various government officials in the U.S. mentioned a possible policy interest rate cut before the end of the year. As a result, market participants started to sell the U.S. dollar globally again. As a result, the U.S. dollar/Philippine peso exchange rate fell below the recent support line and reached PHP 58.17. However, thereafter, the president of the Philippines declared a state of calamity in the capital city of Manila and its nearby cities due to a typhoon and flooding. The foreign exchange market was closed accordingly. After the market opened again, the U.S. dollar/Philippine peso exchange rate fluctuated at around the PHP 58.40 level. However, toward the end of the month, the U.S. dollar/Philippine peso rose to approach the PHP 58.60 level.

2. Outlook for This Month

In August, the U.S. dollar/Philippine peso exchange rate is forecast to move based on the monetary policy of various countries.

In July, there were some signs of slowdown in U.S. economic indices, and market participants remained unsure about the timing of a policy interest rate cut in the U.S. As a result, the global trend of U.S. dollar-buying slowed to some extent, and the U.S. dollar/Philippine peso exchange rate started to fall, as the Philippine peso rallied from its lowest rate against the U.S. dollar seen since the beginning of the year. According to the latest estimate by market participants, the Federal Open Market Committee (FOMC) may cut its policy interest rate at its meeting in September, at the earliest.

It is also worth noting that there has been a significant change in the situation related to the presidential election in the U.S. However, the impact of this on the U.S. dollar/Philippine peso exchange market has not yet surfaced, as the future outlook remains unclear.

On the other hand, the central bank of the Philippines shows its confidence about its achievements in controlling domestic inflation, intermittently suggesting the possibility of a policy interest rate cut in the middle of August. The current exchange rate has already reflected this trend, but in June and July, the rise of the U.S. dollar/Philippine peso exchange rate slowed before reaching the PHP 59 level. Even if the central bank of the Philippines decides to cut the policy interest rate before the U.S., the U.S. dollar/Philippine peso exchange rate is still forecast to continue fluctuating, mainly at the PHP 58 level.

As a risk scenario, the U.S. dollar/Philippine peso exchange rate could approach the PHP 59 level—the psychological turning point—if market participants buy back the U.S. dollar when the already-low long-term interest rates in the U.S. fall further due to strong figures in U.S. economic indices. In any case, many countries are shifting their respective monetary policies. Under such circumstances, the U.S. dollar/Philippine peso exchange rate is forecast to fluctuate in response to market trends based on the monetary policy decisions of various countries and subsequent actions.

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

Indian Rupee – August 2024

Expected Ranges **Against the US$: INR 83.30–84.20**
Against the yen: JPY 1.78–1.91

1. Review of the Previous Month

In July, the Indian rupee reached its lowest rate against the U.S. dollar.

In July, the U.S. dollar/Indian rupee exchange market opened trading at around the INR 83.40 level. At the beginning of the month, pressure to buy the U.S. dollar strengthened, and the U.S. dollar/Indian rupee exchange rate exceeded the mid-INR 83 level, which was a psychological turning point, and continued fluctuating while remaining high. In the middle of the month, there were some transactions based on actual demand and on foreign exchange market intervention by the central bank of India (RBI), selling the U.S. dollar and buying the Indian rupee, and this kept the U.S. dollar/Indian rupee exchange rate form rising further. Toward the end of the month, the depreciation of the Indian rupee accelerated due to concerns over the deterioration of the trade balance based on increased imports as a result of falling interest rates in India as well as the reduced import tax on gold caused by the released revised budget for 2024–2025, aiming for fiscal soundness. Consequently, the Indian rupee renewed its lowest rate against the U.S. dollar. In the end, the U.S. dollar/Indian rupee exchange market closed trading in July by exceeding the INR 83.70 level—a psychological turning point (as of July 26).

The BSE SENSEX was at around the 79,000 level at the beginning of the month, after which the index reached the 80,000 mark. On the other hand, some market participants sold stocks to take profit at this level, and the index fell to some extent. Yet, the overall level of the index remained high. Toward the end of the month, pressure to buy stocks strengthened again, and the index renewed the highest level of the year. Investment capital flow from foreign investors into the Indian stock market has been increasing and is likely to exceed the single-month net buy observed in June, and this confirms the steady return of capital inflow in India.

In terms of economic indices in India, the June manufacturing and service industry Purchasing Managers' Index (PMI) saw a mixed result. The May industrial production turned out to be above the market estimate, and the previous result was also revised upward. The June Consumer Price Index (CPI, year-on-year) turned out to be +5.08%, recording an increase from +4.75%, the previous month's result (an increase recorded for the first time in six months). Even though there has not been an excessive increase, it is now the time to confirm the process to achieve the inflation target of 4.0% in order to prepare for the policy interest rate cut in the second half of the year. The June trade balance saw a slight decrease in deficit. However, there has been a constant deficit, confirming the persistent weakness of the Indian rupee.

2. Outlook for This Month

In August, the U.S. dollar/Indian rupee exchange rate is forecast to approach the INR 84 level, a psychological turning point.

In August, the Indian rupee is forecast to continue depreciating slowly, leading the U.S. dollar/Indian rupee exchange rate to approach the INR 84 level—a psychological turning point. In July, the U.S. dollar/Indian rupee exchange rate remained high, remaining above the mid-INR 83 level. The RBI has occasionally intervened in the foreign exchange market by buying the U.S. dollar and selling the Indian rupee in order to offset pressure to sell the U.S. dollar and keep the U.S. dollar/Indian rupee exchange rate from falling. As a result, the Indian rupee was generally on a downtrend. In the times ahead, the U.S. dollar/Indian rupee exchange market is forecast to move slowly, as the RBI is expected to continue intervening in the foreign exchange market to keep the U.S. dollar/Indian rupee exchange rate from falling. Because the RBI continues intervening in the market even after the U.S. dollar/Indian rupee exchange rate exceeded the mid-INR 83 level, the Indian rupee is likely to weaken, and the U.S. dollar/Indian rupee exchange rate could approach the INR 84 level.

The June CPI recorded an increase from the previous month's result. At a monetary policy committee (MPC) meeting held in June, the policy interest rate was maintained at 6.50%. However, there were more votes for a policy interest rate cut this time, and more market participants expect the policy interest rate to be cut by 25 basis points toward the second half of the year. On the other hand, the RBI has not changed its stance on monetary policy (continued interest rate hikes to control inflation), remaining cautious about inflation. Under such circumstances, in order to achieve the inflation target of +4.0%, the MPC is expected to maintain the policy interest rate at the existing level in August, given that the CPI has recorded a slight increase.

In July there has been more investment capital inflow into the stock and bond markets in India, increasing steadily and exceeding the level of the net buy observed in June. In this context, it is most likely for the Indian rupee to start appreciating against the U.S. dollar toward the second half of the year, when the U.S. starts cutting the policy interest rate. However, it will not strengthen pressure to sell the U.S. dollar. Thus, based on the foreign exchange market intervention by the RBI and Indian rupee-selling based on actual demand, the Indian rupee is likely to start weakening again in the times ahead. Toward the second half of the year, market participants are advised to remain careful about the occasional violent fluctuations in the U.S. dollar/Indian rupee exchange market that could arise in reaction to monetary policy changes in both the U.S. and India, as well as headlines related to the Presidential election in the U.S.