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Mizuho Dealer's Eye

October 2024

Mizuho Bank, Ltd.

Global Markets Sales & Trading Department

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U.S. Dollar – October 2024

Expected Ranges **Against the yen: JPY138.00–145.00**

1. Review of the Previous Month

The dollar/yen pair continued moving with a heavy topside in September as investors priced in a large US rate cut.

The pair opened the month trading at 146.43 yen on September 2. Amid a scarcity of factors during a US market holiday, the cross yen rose and US treasury futures fell, with the currency pair temporarily hitting a monthly high of 147.20 yen during September 3. However, the same day saw the release of a bearish US August Manufacturing ISM Report on Business. With the US also releasing a weak July JOLT Job Openings figure on September 4, the greenback was sold. The US August ADP National Employment Report also proved bearish on its September 5 release, with the dollar/yen pair then sliding to 142 yen. The US released some mixed August employment data on September 6, so the pair moved erratically while dropping to 141.75 yen for a time.

Japanese stocks bounced back on September 9, with the currency pair also rallying to around 143 yen. However, Kamala Harris seemed to get the upper hand during a presidential debate on September 11. With a Bank of Japan (BOJ) official also making some hawkish comments, the pair was pushed down to 140.71 yen. US interest rates rose on the release of some healthy US August CPI data, with the pair returning to the mid-142 yen range, though the dollar was then sold as investors focused on the FOMC meeting towards the weekend.

Amid growing expectations that the FOMC would implement a sharp rate cut, the dollar continued sliding on September 16, with the currency pair weakening to 139.58 yen to hit its lowest level since the start of the year. The pair then rallied to the upper-140 yen mark on the strong result of the US September NY FRB Manufacturing Index. The pair then climbed to the lower-142 yen level on September 17 after the US August retail sales data unexpectedly strengthened. The FOMC implemented a 50bp rate cut on September 18. US interest rates fell directly after and the dollar/yen pair plunged to the mid-140 yen level. However, FRB chair Jerome Powell appeared more hawkish than expected when he spoke about the pace of rate cuts, so the greenback was bought and the pair bounced back to the upper-142 yen mark. The BOJ decided to leave policy unchanged when it met on September 20. With the bank also saying it was in no rush to hike rates again, the dollar/yen pair rose to 144.43 yen.

The US released some strong preliminary September Non-manufacturing PMI data on September 23, though September 24 then saw the release of a bearish September Conference Board Consumer Confidence Index, so the pair hovered around 144 yen. The US announced some better-than-expected economic indicators on September 26. With the markets also pricing in a victory by Sanae Takaichi in the race for the Liberal Democratic Party leadership in Japan, the currency pair rallied to 145 yen. News emerged that Takaichi was indeed the frontrunner during the first round of voting on September 27, so the yen was sold and the pair temporarily climbed to 146.49 yen. However, Shigeru Ishiba ended up winning the final vote, so the pair dropped to 142.07 yen as investors unwound their positions. At the start of the next week, on September 30, the dollar was then sold in relation to the end of the month and the quarter, so the dollar/yen pair weakened to the upper-141 mark.

2. Outlook for This Month

The dollar/yen pair will probably trade with a heavy topside in October on the different monetary policy stances of the US and Japan and the impending US presidential election.

In the US, the FRB seems to be placing more importance on the labor market than inflation when it comes to monetary policy decisions. After the FOMC implemented a 50bp rate cut in September, FRB chair Jerome Powell said the FOMC might have implemented a rate cut in July if had gotten the July employment report before the meeting. The US unemployment rate continued rising in July, while nonfarm payrolls growth also slowed in August. The nonfarm payrolls figure fell below market expectations in both July and August. At +146,000, meanwhile, the forecast for September has also dropped below the +142,000 figure recorded in August. If the employment market continues to slow, the September result is also likely to swing lower.

There also remains considerable uncertainty about the November US presidential election. Given how the dollar has been prone to selling before previous presidential elections, it seems the currency pair will move with a heavy topside this month.

On the other hand, speculators in the IMM futures market have piled up a lot of yen long positions. This adjustment itself could come under some correction depending on how the market develops, so caution will be needed.

In Japan, meanwhile, a new administration began under new Prime Minister Shigeru Ishiba, with a general election now penciled in for October 27. In his press conference after the LDP leadership vote, Ishiba said he would continue the economic policies of his predecessor Fumio Kishida. The details are still unclear, but his stance will probably become clearer as time passes. Market participants believe the new PM is quite hawkish, so attention might focus on BOJ monetary policy normalization as the direction of the new administration becomes clearer, with the yen likely to be bought on expectations for further rate hikes.

Dealers' Market Forecast

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

Bullish on the dollar	10 bulls	146.50 – 139.50	Bearish on the dollar	6 bears	146.00 – 138.50

* Ranges are central values

Miyachi	Bull	147.50 – 139.50	Though the markets have just processed several major events in September, a number of other political events are still on the horizon, including the US presidential election and a Japanese general election. An accommodative financial stance is likely to prevail on the whole ahead of the elections, so the dollar/yen pair's room on the downside might be capped by rising stocks and so on.
Kawai	Bull	146.00 – 139.00	Upwards pressure on the yen from Japanese political factors will only be transitory. While BOJ governor Kazuo Ueda is relaxing his hawkish stance, FRB chair Jerome Powell has insisted the FRB will not rush into further rate cuts going forward. As such, a clear sense of direction is unlikely to emerge in October, with the dollar/yen pair set to move in a range with an eye on economic indicators.
Kawabata	Bear	146.50 – 139.50	There has been a round of speculation about BOJ policy after the LDP elected a new leader. This confirmed there was some resistance, with the dollar/yen pair's rally also likely to be muted given the FRB's accommodative stance. US stocks will probably move firmly on expectations for a soft landing in the US, but the currency pair looks set to move with a heavy topside.
Kato	Bull	148.00 – 137.00	The dollar/yen pair's movements are unlikely to be shaped much by Japanese politics. The decisive factor will probably be supply and demand, with any political impact likely to come from the US side alone. The US economy is falling into disinflation, but the trend this month will remain dollar bearishness and yen bullishness, even if there is some adjustment.
Yamazaki	Bull	145.80 – 139.80	With Shigeru Ishiba winning the LDP leadership contest, the situation has returned to how it was before the vote, with investors likely to focus on what policies emerge after the launch of the Ishiba administration. However, the election will be held near the end of the month according to the expected schedule, with the government likely to steer cautiously until that date, so the dollar/yen pair is likely to move bullishly for now.
Yamaguchi	Bear	145.00 – 138.00	The market focus is returning to US/Japanese monetary policy and the US presidential election in November. The US will continue to lower rates, while Japan is looking for the right time to lift rates again. With Japanese/US interest-rate differentials set to shrink from here on, the dollar/yen pair will probably trade with a heavy topside.
Tagawa	Bull	145.00 – 139.50	There is a dearth of factors now the FOMC meeting and the LDP leadership contest are out of the way. The new LDP leader Shigeru Ishiba made some hawkish noises before the vote, but he might soften his stance if the BOJ opts not to hike rates in the face of bearish stock movements or sharp financial market fluctuations. After moving flatly, the dollar/yen pair looks set to rise slightly.
Matsunaga	Bull	147.00 – 139.50	The US labor market does not seem to be undergoing a serious slowdown, with the markets somewhat over-hasty to price in rate cuts. If the employment data falls within the realms of expectations, the dollar/yen pair will probably rally.
Katoono	Bull	147.00 – 139.00	US services inflation still seems high while labor indicators have shown firmness again, so expectations for rate cuts look set to wane. With a US presidential election also looming, the dollar is likely to be bought back.
Okuma	Bull	147.00 – 140.50	There is a sense of relief that Japan will stick to the same monetary policy path even after the LDP elected a new leader, so the yen is unlikely to rise sharply. The BOJ has indicated it is in no rush to lift rates. There is growing speculation about FOMC rate cuts, but the FOMC is likely to keep policy fixed this month, so the dollar/yen pair will continue moving firmly with a lack of direction.
Han	Bear	145.00 – 138.00	Investors will find it hard to actively build up dollar long positions given the uncertainty about the US presidential election and the divergent monetary policy stances of the US and Japan.

Ito (Motoi)	Bear	146.00 – 135.00	The US labor market seems to be steadily cooling by the day. Though we are not in a recession yet, US economic sentiments will deteriorate further going forward. As expectations for more large-scale rate cuts grow, the greenback will probably be sold.
Suzuki	Bull	146.00 – 139.00	With a US presidential election looming at the start of next month, the markets will find it hard to move. The dollar/yen pair will continue trading in a range overall, but with BOJ governor Kazuo Ueda indicating he is in no rush to hike rates, the yen will probably be sold, with the currency pair set to move firmly.
Minamino	Bull	146.00 – 140.00	The markets will be focused on the any news about the US presidential election, with the dollar/yen pair set to trade skittishly. However, the markets have overly priced in US rate cuts, so the pair will probably rise slightly.
Nishi	Bear	146.00 – 140.00	The US employment situation is deteriorating, with the September FOMC meeting also focused on the risk of a jobs downswing. Investors should monitor economic indicators going forward. There are a number of other uncertainties apart from the economic downturn, though, including the US presidential election. Though the BOJ seems some way off hiking rates again, the dollar/yen pair will probably trade with a heavy topside.
Matsuki	Bear	146.00 – 139.00	Expectations for rate hikes might swell ahead of the October BOJ meeting, when the Outlook for Economic Activity and Prices is set for release. If the results of US employment indicators also rouse speculation about a 50bp rate cut at the next FOMC meeting, investors will try testing the 140 yen mark. This trend will also be supported by the strange tendency of the dollar to weaken ahead of US presidential elections.

Akihiro Katoono, Forex Sales, Global Markets Sales & Trading Department

Euro – October 2024

Expected Ranges **Against the US$: US$1.0950–1.1250**
Against the yen: JPY155.00–162.00

1. Review of the Previous Month

The euro/dollar pair moved with a heavy topside toward mid-September though it then began rising in the latter half of the month to temporarily hit a high for the year.

The pair opened the month trading at $1.1045 on September 2. It then strengthened to $1.1077 as German interest rates rose after Germany's August Manufacturing PMI (final) result was revised upwards. The euro was sold on September 3, but the US then released a worse-than-expected August Manufacturing ISM Report on Business, so the greenback was sold and the pair rose to $1.1070 again. The dollar was sold further on September 4 after the US July JOLT Job Openings figure also fell below expectations, so the pair climbed to $1.1095. It then rose to $1.1119 on September 5 after Germany released a better-than-expected July Manufacturing Orders indicator. The pair temporarily hit $1.1155 on September 6 on the results of the US August employment data, but it soon dropped to $1.1066 amid choppy trading. It then moved in a range around the upper-$1.10 mark.

The next week saw the pair dropping to $1.1030 on September 9 on rising US interest rates. With European stocks moving bearishly, the bear tumbled to $1.1016 on September 10. The dollar was bought on September 11 when the US August core CPI data topped expectations, sot the currency pair fell to a monthly low of $1.1002. However, it bounced back on September 12 and it then strengthened to the upper-$1.10 level when the ECB Governing Council meeting and ECB president Christine Lagarde's speech were read as more hawkish than expected. This trend continued on September 13, with the pair rallying to $1.11.

The following week saw the pair edging to the lower-$1.11 range on September 16 on rising German interest rates. A wait-and-see mode mood prevailed on September 17 ahead of the FOMC meeting, with the pair trading in a range around the lower-$1.11 mark. The FOMC implemented a substantial rate cut on September 18. The euro was bought soon after and the euro/dollar pair climbed to the upper-$1.11 range for a time. However, the FOMC's economic outlook and FRB chair Jerome Powell's speech implied that the FRB was in no rush to cut rates again, so the greenback was then bought and the currency pair fell temporarily to the upper-$1.10 mark. The pair dropped to the mid-$1.10 level for a time on September 19, but the euro was then bought back as the cross yen moved bullishly during Tokyo trading time, with the euro/dollar pair also climbing back to the upper-$1.11 mark. The pair rose to $1.1181 on September 20 as the cross yen climbed in the wake of BOJ governor Kazuo Ueda's press conference after the Bank of Japan (BOJ) Monetary Policy Meeting, though it then moved in a range around the mid-$1.11 level.

The pair was weighed down the following week by the lackluster results of the preliminary eurozone September Manufacturing and Non-manufacturing PMIs (released September 23). After crashing to $1.1085, it then rallied to the lower-$1.11 range after the German interest rates pared back their declines. The pair strengthened to the upper-$1.11 level on September 24 as US interest rates fell. It then climbed to a 2024 high of $1.1214 on September 25 on rising German interest rates. It subsequently weakened to the lower-$1.11 mark on rising US interest rates. The pair rose to the upper-$1.11 level on September 26 as German interest rates rose and European stocks moved firmly. As the cross yen fell on September 27, the euro/dollar pair was also pulled down to the lower-$1.11 level. It temporarily climbed to $1.12 on the results of some US economic indicators, but it was soon pushed back to the mid-$1.11 mark. The dollar was bought on real demand at the month's end, with the pair moving in a range around the mid-$1.11 level on September 30.

2. Outlook for This Month

The euro/dollar pair will move with a heavy topside in October.

Late September saw the currency pair temporarily hitting $1.1214 for the first time since July 18, though it was then weighed down by expectations for more ECB rate cuts in the near future. It also moved heavily on eurozone disinflation and an economic slowdown in Germany and elsewhere. There are hopes the Chinese economy has bottomed out after the Chinese authorities announced a stimulus package. It is likely the markets are also focusing on the FRB's commitment to ease at an appropriate pace following its first rate cut. However, the aforementioned bearish euro factors will probably hit the currency pair harder in the short term as they manifest themselves in indicators.

As expected, the ECB lowered its central bank deposit rate (its main policy rate) from 3.75% to 3.50% when it met in September. It its statement, the Governing Council said it would "continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate level and duration of restriction," adding that the Council was "not pre-committing to a particular rate path." However, it also explained that "labour cost pressures are moderating, and profits are partially buffering the impact of higher wages on inflation," thus suggesting that inflation was being kept in check to a certain extent. In her press conference, ECB president Christine Lagarde said any future rate cuts would depend on the data and she did not drop any hints about rate cuts going forward. In its quarterly Macroeconomic Projections, the ECB predicted that eurozone economic growth would hit 0.8% in 2024, 1.3% in 2025, and 1.5% in 2026, with each of these figures downgraded by 0.1 points compared to the previous release in June. However, the inflation outlook was left unchanged, at 2.5% in 2024, 2.2% in 2025 and 1.9% in 2026, with the ECB expressing caution about the stickiness of inflation. Though Lagarde said inflation would rise in the fourth quarter, she predicted it would fall again from next year onwards. She also gave an advance warning about the market reaction to this transitory rise in inflation while maintaining that rates would continue to be lowered as inflation came under control.

There is speculation that CPI might fall in September on the base effect, while Germany's economy has slowed sharply. Though the ECB has already taken these into account, there is growing speculation that these factors might lead to a further rate cut at the October Governing Council meeting. At +1.5% y-o-y and +1.7% y-o-y respectively, the September CPI figures for France and Spain (released September 27) were both down on market forecasts. The eurozone September CPI data will be released on October 1. If it is down on the August figure, this will also provide momentum for a further rate cut. The German September IFO Business Climate Index also deteriorated, while unemployment rose by more than expected in Germany's September employment data, with signs of an economic slowdown growing more pronounced. Bets on a further rate cut at the October ECB stood at around 40% as of September 12, but they have now risen to more than 80%, with this also likely to weight the euro/dollar pair down.

Dealers' Market Forecast

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

Bullish on the euro	4 bulls	1.1300 – 1.1000	Bearish on the euro	12 bears	1.1255 – 1.0925

* Ranges are central values

Miyachi	Bear	1.1300 – 1.0850	Europe's economy is slowing and there is political instability in France and elsewhere in Europe. Given this, the euro will be a hard currency to buy, though investors should be on guard against dollar weakness now the US has begun cutting rates. As a collective body, there is also the risk that the ECB might lag behind when it comes to shifting policy.
Kawai	Bear	1.1200 – 1.0950	Judging from ECB president Christine Lagarde's recent comments about eurozone inflation, it seems the likelihood of an October ECB rate cut has risen, but it is uncertain about whether her comments will lead to a faster pace of rate cuts. Given this lack of a clear direction, it seems the dollar/yen pair will move in a range with an eye on US economic indicators (particularly those related to employment).
Kawabata	Bear	1.1300 – 1.1000	The indicators continue to suggest inflation is cooling in the eurozone. With ECB officials also voicing support for such a move, speculation is rising about a further rate cut at the October ECB Governing Council meeting. The euro/dollar pair is unlikely to fall sharply given how the FRB has begun lowering rates, but it will probably move with a heavy topside.
Kato	Bear	1.1300 – 1.0800	VW has announced it might close its plants in Germany, with this symbolic news raising the specter of industrial hollowing-out. Investors will also be monitoring how much pressure Germany faces from its trade balance data. Unlike Japan, the eurozone itself is a huge economic zone, so the euro/dollar pair will probably be swayed significantly by factors emanating from Germany as well as those coming from the US.
Yamazaki	Bear	1.1250 – 1.1050	Europe and the US are both lowering rates, but the former will face even more pressure to ease and cut rates given the situation in France, with the euro/dollar pair likely to be pushed down slightly in October.
Yamaguchi	Bull	1.1300 – 1.1050	The markets have priced in one ECB rate cut this year, but the ECB will continue to face difficulties given the likelihood that inflation will remain high in 2025. On the other hand, the US is expected to lower rates intermittently. With US political risk also rising, the greenback will continue to be sold.
Tagawa	Bear	1.1260 – 1.0800	A lot will depend on moves to factor in the scale of FOMC rate cuts within the year, but Europe's economy is deteriorating compared to the US, with political uncertainty also rising. The euro will be a hard currency to buy on the whole, with the euro/dollar pair set to trend downwards.
Matsunaga	Bear	1.1250 – 1.0950	Expectations for US rate cuts are growing, while the ECB only has limited room for rate cuts. With services inflation also remaining high, the euro/dollar pair is likely to remain firm, though the state of the European economy suggests there will be a dearth of factors conducive to active euro buying. The pair will move with a heavy topside in October.
Katoono	Bear	1.1250 – 1.0950	With the German economy slowing sharply, there will probably be more discussions within the ECB about cutting rates again in the near future. As such, the euro/dollar pair looks set to move bearishly. With excessive expectations for FRB rate cuts also waning, the dollar will move bullishly, with the pair also likely to be weighed down by position adjustments.
Okuma	Bear	1.1250 – 1.0950	The euro will be supported by the Chinese government's stimulus package, but it will take time before this leads to higher eurozone growth. With economic indicators deteriorating, the ECB will probably lower rates again this month, with the euro/dollar pair set to move bearishly as a result.
Han	Bear	1.1300 – 1.0900	Though expectations are growing for a soft landing in the US, economic sentiments are deteriorating in Europe, with the euro/dollar pair set to move with a heavy topside.

Ito (Motoi)	Bull	1.1400 – 1.0850	Uncertainty is rising about the direction of Germany's economy (the central pillar of the eurozone economy), but other eurozone economies are moving comparatively firmly. The pace of FRB and ECB rate cuts also suggests the euro/dollar pair will continue rising as the FRB eases at a faster pace.
Suzuki	Bear	1.1300 – 1.0800	The eurozone has released some notably weak economic indicators, with investors steadily pricing in a rate cut at the October ECB Governing Council meeting. The trend of dollar selling on expectations for US rate cuts is also waning, with the euro/dollar pair set to move bearishly this month.
Minamino	Bear	1.1250 – 1.0900	The euro will probably be sold on the weakness of Europe's economy. The ECB Governing Council is likely to keep policy fixed when it meets in October, but it will probably adopt a dovish stance in the wake of the recent series of weak economic indicators.
Nishi	Bull	1.1300 – 1.1000	Market participants have finished pricing in 2024 ECB rate cuts, with the euro/dollar pair set to move firmly with an eye on the US economic slowdown. Furthermore, service prices have stopped sliding in the eurozone, so the ECB is likely to continue monitoring the data for the time being.
Matsuki	Bull	1.1300 – 1.1000	Economic sentiments have deteriorated in the eurozone and there is a dearth of euro-buying factors, but the dollar might be sold further on expectations for substantial FRB rate cuts depending on the results of US employment-related indicators. Though there is no clear sense of direction, the euro/dollar pair will probably rise slightly on dollar selling.

Motoki Amanuma, Europe Treasury Department

British Pound – October 2024

Expected Ranges **Against the US$: US$1.2900–1.3800**
Against the yen: JPY182.00–200.00

1. Review of the Previous Month

In September, the GBP/USD pair fell toward the FOMC meeting, though it then rallied on expectations for a substantial FRB rare cut following the release of an article by a Fed watcher. Thereafter, the FOMC did indeed implement a large rate cut. A glance back at the month shows the pound rising sharply against the dollar.

The US August employment data was released on September 6. The nonfarm payrolls figure was down on market expectations, while the previous month's figure was also revised downward. The pound was sold and the dollar bought directly after the release of these weak figures. However, NY FRB President John C. Williams and FRB governor Christopher Waller then voiced support for a gentle pace of rate cuts, so the greenback dropped back and sterling rose.

A wait-and-see mode prevailed on September 10 ahead of the release of the US August CPI data. The UK July employment data was released during this time, with jobs growth at its lowest in two years. However, there were no moves to price in a rate cut at the following week's September meeting of the Bank of England (BOE), so the impact of the data was muted. The next week saw the release of the UK's July GDP data on September 11. Growth was unchanged on the previous month and down on market expectations. With growth also predicted to slow in the second half of the year, it seemed the economic recovery was losing steam, so speculation grew about a UK rate cut in late 2024. The US August CPI data was released on the same day. The headline figure was in line with expectations, but the core figure was up on market forecasts. Outstanding bets on a -50bps rate cut dropped off significantly, with the dollar rising across the board. The GBP/USD pair also fell sharply. However, on September 12 the Fed watcher Nick Timiraos published an article speculating about the size of the rate cut at the FOMC meeting. Expectations for a -50bps rate cut had waned sharply, but they made a comeback now, with the greenback subsequently moving bearishly across the board.

With the FOMC meeting looming the following day, the greenback was bought on September 17 when the US August retail sales data did not slump by as much as the markets had feared. On September 18, the GBP/USD pair's previous-day losses were pared back, perhaps because of a renewed focus on the possibility of a -50bps rate cut. The pair then rallied when the greenback was sold directly after the FOMC finally announced a -50bps rate cut. In his press conference after the meeting, though, FRB chair Jerome Powell made some comments dampening expectations regarding the pace of future rate cuts, so the pair's momentum was short-lived and it underwent some adjustment. Risk assets rose sharply on September 19. The BOE's Monetary Policy Committee meeting was much as predicted. With more members than expected voting to keep policy fixed, the meeting was read as hawkish, with the pound moving firmly. As expected, the Bank of Japan (BOJ) kept policy rates unchanged when it met to set policy on September 20. In his press conference, though, BOJ governor Kazuo Ueda made some dovish noises about the likelihood of rate cuts in the near future, so the yen was sold and the cross yen rose. The pound also rose sharply against the yen, though its movements against the dollar was largely unaffected.

The pair jostled up and down in the final week on the economic indicators of several countries and headlines related to Chinese capital injections, for example, though it continued to move firmly. In Japan, there was a surprise on September 27 when Shigeru Ishiba emerged victorious in the vote for the next LDP leader. Bets on a victory by the dovish Sanae Takaichi were now unwound, with the yen rising sharply against the pound.

2. Outlook for This Month

Though uncertainty is rising ahead of the UK budget announcement, the pound looks set to continue moving firmly throughout October.

Expectations for a -50bps rate cut surged ahead of the FOMC meeting last month. While the FRB did indeed implement a large-scale rate cut, the BOE adopted a more hawkish stance than the markets had expected, with the GBP/USD pair rising sharply. In his press conference after the FOMC meeting, Jerome Powell did not make any particular mention that large rate cuts would continue going forward, with the FRB chair saying any decisions would depend on the data. However, a glance at the OIS market suggests expectations for a large rate cut at the next meeting in November rose steadily toward the month's end, with sterling also moving firmly. In October, market attention will focus on the release of the US September employment data on October 4. A lot depends on the data collection period, with September witnessing Hurricane Francine and a strike at major hotel chains. In Texas, petroleum production fell by 20% for a time, with the data also impacted by a temporary rise in unemployment. If the unemployment rate is worse than the markets are expecting, this will spur on speculation about a large-scale rate cut in November, with this likely to push the GBP/USD pair higher.

In the UK, meanwhile, the September CPI data will be released on October 16. The BOE has adopted a cautious stance by saying more evidence of disinflationary trends would be needed for further rate cuts. Services inflation still remains high. It is trending lower, but only at a slow pace. If this sluggish pace is confirmed by the data this month, this will support pound bullishness. However, some observers believe the related data will show inflation slowing at a faster pace. If this is the case, expectations for a UK rate cut will grow, with sterling likely to move bearishly. Furthermore, a glance at positioning in the futures market (as revealed by CFTC reports) shows sterling net longs rising to their highest level since 2007, with downside risk growing. If the data springs a surprise by showing clear signs of disinflation, investors may rush to close their positions, with the pound likely to weaken as a result. At the same time, there will probably be some position adjustments ahead of the UK budget announcement at the month's end.

As for events in November, the markets will be focusing on the US presidential election. Many reports said Kamala Harris beat Donald Trump in a TV debate held last month. Incidentally, betting odds tabulated from US opinion poll aggregation sites saw Harris taking a clear lead over Trump directly after the debate, but as of September 27 the odds had narrowed to 50.4% for a Harris victory compared to 48.1% for Trump.

Ai Ando, Sydney Treasury Office, Asia & Oceania Treasury Department

Australian Dollar – October 2024

Expected Ranges **Against the US$: US$0.6700–0.7100**
Against the yen: JPY97.00–101.20

1. Review of the Previous Month

The AUD/USD pair fell to the mid-$0.66 level in September, though it then hit a 2024 high for a time.

The pair fell from the mid-$0.67 mark to the mid-$0.66 level in the first week. On September 3, the Australian dollar was sold on falling iron ore futures prices and the worse-than-expected result of Australia's 2Q net export figure. The US August employment data was released on September 6, with the pair falling sharply to the mid-$0.66 mark when the nonfarm payrolls figure fell below market expectations.

In the second week, the pair rose from the mid-$0.66 mark to the lower-$0.67 level. At the start of the week, the pair moved with a heavy topside ahead of the release of the US August CPI data. The CPI data was then released on September 11. With the core figure up on expectations, the AUD/USD pair soon dropped to a monthly low of $0.6622. US stocks then began rising, with the Australian dollar also recovering and the currency pair bouncing back to the upper-$0.66 range. The pair then rose to the lower-$0.67 mark on September 12 after the previous month's figure was revised down in the US PPI data, with the pair also bolstered by a small rise in the US new applications for unemployment insurance data.

In the third week, the pair rose from around $0.67 to the mid-$0.68 mark. As expectations grew for a 50bp rate cut at the midweek FOMC meeting, the pair strengthened to the mid-$0.67 mark on September 16. At the closely-watched meeting on September 18, the FOMC decided on a 50bp rate cut. In his press conference after the meeting, Jerome Powell said the FRB would be in no rush to cut rates going forward. After climbing to the lower-$0.68 level, the AUD/USD pair plummeting to the mid-$0.67 mark following the FRB chair's comments. Australia's August employment data was released on September 19. Directly after the release, the Australian dollar was sold as investors focused on the decline in full-time workers, with the currency pair then sliding to $0.6738. After a round of selling, the pair then rose to a 2024 high in the lower-$0.68 range on a growing sense that the labor market was growing tighter.

In the fourth week, the AUD/USD pair rose to the lower-$0.69 mark before then dropping back to the mid-$0.68 range. On September 23, the pair strengthened when China unexpectedly lowered its 14-day reverse repo rate. The pair was then sold after it failed to breach the $0.6835 resistance level, though it soon bounced back. With several FRB officials making dovish comments, the pair then rose to the mid-$0.68 level. As expected, the RBA kept its policy rate fixed at 0.35% when it met on September 24, while the RBA's statement hawkish and basically unchanged on August. With the People's Bank of China also announcing a broad range of stimulus measures, the Australian dollar was bought. The pair then tumbled to the lower-$0.68 mark after RBA governor Michele Bullock said in a press conference that the RBA had not discussed hiking rates at its recent meeting. The greenback then weakened after the US September Conference Board Consumer Confidence Index suffered its sharpest fall in three years, with the AUD/USD pair soaring to just below $0.69. The pair opened September 25 trading in the lower-$0.69 range, though it then edged down when Australia's August CPI data (released the same day) slowed by more than expected. The greenback was then bought on the better-than-expected result of the US August New Homes

Sales data, with the currency pair moving with a heavier topside to tumble to the lower-$0.68 mark.

2. Outlook for This Month

The AUD/USD pair is expected to move firmly in October. The pair's upper range has edged up this past two months, with investors looking for opportunities to push it even higher. With the FOMC implementing a 50bp rate cut in September and the People's Bank of China announcing a broad range of stimulus measures, the pair has indeed begun to embark on a clear upwards trajectory. When Australia's August CPI data was released on September 25, it revealed that electricity bills had fallen by around 15% in August on electricity subsidies introduced by the federal and state governments. With energy prices also falling (the cost of gasoline tumbled by 3.1%), headline inflation hit 2.7%, its lowest level in three years. As a result, bets on a 25bp rate hike this year rose to 75%. However, the Australian Bureau of Statistics said electricity prices would have risen by 0.1% in August if the subsidies had not been introduced, with more time needed to confirm that inflation was "returning sustainably to target" in line with the RBA's goal. When Australia's August employment data was released last month, it revealed that the number of new jobs had almost doubled on forecasts, with the labor market remaining tight. This is another factor supporting the Australian dollar. For now, investors will be focusing on the October release of the Australian monthly CPI data and Q3 CPI figure.

Mizuho Ashizaki, Canada Treasury Office, Americas Treasury Department

Canadian Dollar – October 2024

Expected Ranges **Against the US$: C$1.3200–1.3700**
Against the yen: JPY101.00–109.00

1. Review of the Previous Month

The US August Manufacturing ISM Report on Business was released on September 3, with the indicator below the key 50 mark for the fifth straight month, so the US dollar was sold slightly. With stocks falling sharply, though, the greenback was then bought on risk aversion. The USD/CAD pair rose to C$1.3562.

The Bank of Canada (BOC) implemented a 0.25% rate cut when it met to set policy on September 4. The BOC said it would lower rates further if inflation fell in line with its projections, so the Canadian dollar was sold. The US July JOLTS Job Openings figure was released around the same time as the BOC meeting. The indicator revealed that hirings were at a 3-year low, so expectations for a 0.50% FRB rate cut flared up again. The market reacted strongly, with the USD/CAD pair plummeting to the lower-C$1.35 mark. Canada's August employment data was released on September 6. At 6.6%, the unemployment rate was worse than feared and it hit its highest level since May 2017 (apart from during the pandemic). At the same time, the US August employment data contained a bearish nonfarm payrolls figure. With several FRB officials making dovish comments, stocks were sold on concerns about a US economic slowdown, with the currency pair strengthening to around C$1.358. In a speech on September 10, BOC governor Tiff Macklem touched on the possibility of a substantial rate cut, so the Canadian dollar weakened and the pair hit C$1.3615.

Most observers believed Kamala Harris came out on top in her closely-watched debate with Donald Trump, so market participants sold the US dollar. The US August CPI data was then released on September 11. The m-o-m core figure was up on expectations, so the currency pair bounced back to C$1.3626. Canada's August CPI data was released on September 17, with inflation falling to the BOC's target of 2% y-o-y. The m-o-m figure unexpectedly dipped into negative territories, with expectations then rising for a large rate cut at the October BOC meeting. Market expectations for a 0.25% rate cut grew ahead of the FOMC meeting, but uncertainty about the scale of the rate cut then grew after the Wall Street Journal hinted that a 0.50% cut might be on the cards. The USD/CAD pair moved in a narrow range with a lack of direction. On September 18, the FOMC decided on a substantial 0.50% rate cut. The greenback was sold and the currency pair plunged to C$1.3541. However, the dollar was then bought when FRB chair Jerome Powell's speech did not turn out as dovish as the markets had anticipated, so the currency pair bounced back to C$1.3623. With several FRB officials voicing support for another rate cut at the month's end, market expectations for a large rate cut at the next November FOMC meeting rose again. With crude oil prices also rising on news that China had announced a stimulus package to support the economy, the pair tumbled to C$1.3420. The greenback was pushed down across the board, with the Canadian dollar moving at highs.

2. Outlook for This Month

As expected, the Bank of Canada (BOC) implemented a 0.25% rate cut for the third straight month when it met to set policy on September 4, with the BOC's policy rate lowered to 4.25%. The BOC's statement was broadly unchanged on July, with the BOC reiterating concerns that inflation might swing substantially below its 2% target if the economy deteriorated.

In his statement, BOC governor Tiff Macklem said it would be appropriate to expect further rate cuts if inflation fell in line with the BOC's projections.

At 2.1%, the 2Q real GDP growth rate was above the forecasts of the markets and the BOC itself. The BOC also announced that the economy had grown by around 2% in the first half of the year, with growth set to pick up in the latter half of the year to hit 2.8% (the BOC's prediction as of July 2024). However, BOC governor Tiff Macklem has pointed to the risk of GDP swinging lower in the third quarter, with some analysts also predicting that growth will drop below forecasts of 1–1.5%. The principal driver behind Canada's economic growth is population growth, but per-capita productivity fell for five straight quarters, with this also raising fears about a Canadian economic slowdown.

Canada's August employment data showed the unemployment rate rising to 6.6%, with the labor market slowing. The y-o-y August CPI data also dropped to the BOC's 2% target, with the m-o-m figure unexpectedly dipping into minus territories. With concerns rising about an economic slowdown, there is growing speculation that the BOC will implement a large 0.50% rate cut when it meets on October 23.

On the other hand, the FOMC cut rates by a substantial 0.50% when it met over September 17–18. FRB chair Jerome Powell said rates would not be lowered at a 0.50% pace going forward, so there is speculation that the FOMC will lower rates at 0.25% apiece at its two remaining meetings this year. However, some market participants are growing convinced that the FOMC will implement another 0.50% cut when it meets in November.

With the FRB indicating its support for further rate cuts within the year, the USD/CAD pair is likely to trend lower, but if investors focus on the prospect of a US economic slowdown, stocks might fall and risk aversion might rise again. Geopolitical risk is also rising on the deteriorating situation in the Middle East and Ukraine, so market participants should be wary of the US dollar appreciating sharply.

With a US presidential election also looming in November, US political trends will also impact the currency pair, with uncertainty set to grow from here on.

The pair is expected to move between C$1.32–1.37 this month.

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

Korean Won – October 2024

Expected Ranges **Against the US$: KRW 1,300–1,360**
Against the yen: JPY 10.36–11.23 (KRW100)

1. Review of the Previous Month

The USD/KRW pair moved with a lack of direction in September.

The pair opened the month trading around KRW1337. The US PCE deflator was released at the end of August and it confirmed that the US economy was slowing. Other economic indicators performed well, so expectations grew for a soft landing in the US, with the currency pair then hitting a high of KRW1344.3 over September 3. Thereafter, the pair continued moving with an eye on US indicators. The US released a weak ADP National Employment Report on September 5 and some bearish employment data on September 6, so a pessimistic mood prevailed and US interest rates fell, with the currency pair dipping below KRW1330 during the night.

The pair opened the following week trading around KRW1338 on September 9, though the won then moved bearishly as more overseas investors sold in South Korean stock markets. US interest rates rebounded on September 10, with the USD/KRW pair hitting a high of KRW1345.6. This trend switched from September 11 as the pair moved with a heavy topside as the dollar was sold on a sense that Kamala Harris had won her presidential debate with Donald Trump. Exporters sold the greenback toward the weekend in advance of a long South Korean holiday, with the pair then dropping below KRW1330 again.

When the long holiday was over, the dollar was sold on a US rate cut, with the pair hitting KRW1325.9 soon after opening on September 19. However, investors had more-or-less priced in the US rate cut beforehand and there was a growing sense that rates would be lowered at a gentle pace going forward, so the dollar was bought back for a time. The pair moved skittishly on September 20 ahead of a Bank of Japan (BOJ) meeting, though it continued floating around KRW1330.

The next week saw the won moving bearishly again on September 23. The won was pulled lower as the RMB moved bearishly on concerns about a Chinese economic slowdown, with the USD/KRW pair climbing to just below KRW1340. The People's Bank of China then lowered its deposit reserve requirement ratio and base rate on September 24. As the RMB weakened, the USD/KRW pair continued moving firmly. Amid hopes for a Chinese economic recovery, the pair fell to the mid-KRW1320 mark on September 25, though it gradually rose back to KRW1330 to close around KRW1331.0 (as of 15:30 on September 25).

2. Outlook for This Month

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

The US has begun cutting rates and it seems US interest rates will fall from here on, so the pair's topside is likely to remain heavy. When the BOK last met in August, meanwhile, a majority of members voiced support for rate cuts. The August CPI was then released at the start of September and it revealed that inflation had finally fallen to the 2% target, with expectations then rising for a BOK rate cut within the year. However, the bank will have to move cautiously given concerns about surging household debt and won bearishness, with rate cuts likely to start at the November meeting.

When it comes to real demand trends, exports continue to move firmly. At around +$57.9 billion, exports were up +11.4% y-o-y in August. Exports of semiconductors (South Korea's main export item) rose by over +$11.0 billion for the fourth straight month to hit a record high for August. Exports to China also moved firmly, while exports to Europe grew at the fastest monthly pace on record. At around +$3.8 billion, the overall trade balance was in the black for the 15th month in a row. There are concerns about a Chinese economic slowdown, but there are also high hopes regarding the stimulus policies of the Chinese government and the People's Bank of China. Expectations are also growing for a soft landing in the US. If the external environment continues moving firmly, this will also lead to more real-demand won buying.

Given shrinking US/South Korean interest rate differentials and the real-demand situation, it seems the USD/KRW pair's room on the topside will be capped, with the pair falling slightly this month. However, if the BOK springs a surprise rate cut when it meets in October, the won might move bearishly in the short term, so caution will be needed.

Kazuki Hisamoto, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – October 2024

Expected Ranges **Against the US$: NT$31.10–32.10**
Against the yen: JPY4.45–4.70

1. Review of the Previous Month

The USD/TWD pair fell in September.

The pair opened the month trading at TWD31.980 on September 2. The US had released some firm July consumer spending data during overseas trading time at the end of August, so the greenback faced more buying pressure. With overseas investors also selling Taiwanese stocks, the Taiwan dollar was sold and the currency pair rose to the upper-TWD32.10 mark. The US released a worse-than-expected July Job Openings figure during overseas trading time on September 4. As US interest rates fell, the pair weakened to the lower-TWD31.90 level as the greenback was sold by exporters.

The US released some bearish August employment data during overseas trading time on September 6. US stocks fell sharply and Taiwanese stocks were also pulled lower. Risk sentiments deteriorated and the US dollar was bought when importers bought overseas currencies, so the USD/TWD pair temporarily climbed to TWD32.218. The US then released a sluggish August PPI figure on September 12. During overseas trading time on September 13, meanwhile, some reports said it was touch and go whether the FOMC would lower rates by 25bp or 50bp, with US interest rates plummeting as a result. The US dollar was sold back and the currency pair slipped to the upper-TWD31.80 level.

The FOMC implemented a substantial 50bp rate cut when it met during overseas trading time on September 18. It was bullish about the economy, though, and it also said that 50bp cuts would not be the norm going forward, so US long-term interest rates then rose. As the greenback faced buying pressure, the USD/TWD pair climbed to the mid-TWD32.00 mark. Taiwan's central bank lifted its deposit reserve requirement ratio on September 19. As investors focused on Taiwan's monetary tightening stance, the Taiwan dollar was bought and the currency pair weakened to the mid-TWD31.80 level. The US then released a worse-than-expected September Conference Board Consumer Confidence Index during overseas trading time on September 24, so the greenback was sold and the pair dropped to TWD31.778 for a time. It then moved with a heavy topside towards the month's end.

2. Outlook for This Month

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

As clouds started to form over the US employment data in September, the US dollar faced selling pressure globally after the FOMC implemented a large rate cut. However, the Central Bank of the Republic of China (Taiwan) adopted a tightening stance and it lifted its deposit reserve requirement ratio in the face of overheating in the property market. With the monetary policies of the US and Taiwanese central banks starting to diverge, the greenback faced more selling pressure, with the USD/TWD pair temporarily falling to TWD31.778.

The pair will probably move with a heavy topside in October. There are expectations for further rate cuts in the

US as employment and inflation indicators cool off. With Taiwan sticking to the tightening path, the US dollar will probably be sold on shrinking US/Taiwan interest-rate differentials. As for fund supply and demand, risk sentiments have improved on signs of monetary easing by the People's Bank of China. If Taiwanese stocks are bought, this will probably prompt more buying by overseas investors. As such, the USD/TWD pair looks set to move with a heavy topside.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – October 2024

Expected Ranges **Against the US$: HK$ 7.7700–7.8050**
Against the yen: JPY 18.00–19.00

1. Review of the Previous Month

Hong Kong dollar spot exchange market in September

The HKD spot fluctuated near 7.8 level as the Fed delivered a hawkish 50bps rate cut in September. Despite the large-sized cut, Fed chair Powell indicated it would not be a new pace and the rate cut cycle should remain gradual. In the domestic market, the IPO market received a boost from the largest debut in 3 years. With the HK equities gaining upside momentum following the HK local banks' surprising 25bps prime rate cut, inflow to HK stock markets supported HKD demand. Onshore China investors continued to show strong interest in HK equities investments, with the year-to-date Southbound inflows reaching near HKD 500bn. Liquidity tightening due to the Silver Bond issuances amounting to a maximum of HKD 55bn also posed positive bias to the HKD spot. The HKD forward curve shifted higher as the Fed's front-loading 50bps rate cut brought forward the timing of USD-HKD rate convergence. The back-end HKD forward outright dropped below 7.74 level, presenting an opportunity for the forward outright buying. On the data front, underlying CPI inflation for August remained subdued at 2.5%YoY, while the unemployment rate stayed low at 3%. The HK property market extended its downturn, with the Centa-City Leading Index reaching its 8-year low before the Fed's 50bps rate cut.

Hong Kong dollar interest rate market in September

The HKD HIBOR curve dropped, as the Fed began its rate cut cycle with an aggressive 50bps cut. However, the front-end HKD curve climbed due to equity inflow, quarter-end seasonality and Silver Bond issuances. Although HK banks lagged behind in the Fed rate hike cycle, leading HK local banks surprisingly cut the prime rate by 25bps after the Fed's bold 50bps rate cut. The rate decision suggested that HK banks' motivation to stabilize property market and lending out excessive liquidity given the subdued loan-to-deposit ratio. A stabilizing property market is beneficial to local banks. HK banks revealed that they suffered credit impaired losses in their commercial real estate loans to HK clients. Despite the narrowing spread between prime rate and HIBOR funding costs, a stabilizing property market could benefit banks' credit portfolios. The 1-month and 3-month HKD HIBOR – USD SOFR rate spread held steady at around -110bps and -80bps, respectively. HKD aggregate balance, a gauge of HKD liquidity conditions, remained broadly unchanged at HKD 44.6bn, as the HKD spot did not touch the trading band limits. HK banks drew a significant amount of discount window operations on 16 September, likely due to capital arrangement issue before the FOMC meeting. In the medium term, the HKD IRS curve fell further as the Fed front-loaded its rate cuts. Alongside the sliding HKD HIBOR, the HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD HIBOR) narrowed to near 150bps.

2. Outlook for This Month

Hong Kong dollar spot exchange market in October

HKD is expected to fluctuate around 7.8 handle with an appreciation bias, as the Fed began its rate cut cycle with an aggressive 50bps rate cut. This indicated that the Fed opened the door for further large-sized rate cuts if US job report or inflation data undershot expectations significantly. The quickening Fed's rate cut should also undermine carry trade interest of long USD/HKD spot positions. Moreover, the pick-up in HK IPO market and continuing Stock Connect inflow are expected to support the HKD spot, but a rapid Fed's rate cut pace will be needed to push further HKD appreciation towards the strong-side convertibility undertaking. Otherwise, soft HKD loan demand amid the property market downturn and bearish HK macro outlook will likely keep a lid on the upside for the HKD spot. The HKD forward curve is subjected to upward pressure as USD-HKD rate spread narrowed amid the Fed's rate cut cycle.

Hong Kong dollar interest rate market in October

Under the USD-HKD peg, HKD rates are set to fall further amid the Fed's rate cut cycle. With the Fed's bold rate cuts and HK banks' proactive stance to follow suit, HK rates could drop faster than expected, bringing forward the timing of USD-HKD rate convergence. The pick-up in IPO market and HK equities, if continues, could boost the HKD closer to 7.75 level. In this case, the HKMA will intervene in the FX market to sell HKD, injecting HKD liquidity to drive HKD rates even lower. In the near term, the front-end HKD rates are expected to fall after the seasonality and silver bond issuances.

Sae Sueyoshi, Treasury Department, MHBK (China)

Chinese Yuan – October 2024

Expected Ranges	**Against the US$: CNY 6.9000–7.1000**
	Against the yen: JPY 19.60–21.25

1. Review of the Previous Month

In September, the U.S. dollar/Chinese yuan exchange rate fell.

On September 2, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 7.09 level. During the weekend, the August PMI of China had been announced with a weak figure. In the market, there were also growing expectations for additional measures of monetary easing. As a result, Chinese bond yields fell, which led the U.S. dollar/Chinese yuan exchange rate to rise in the following week. Consequently, on September 3, the U.S. dollar/Chinese yuan exchange rate temporarily reached the CNY 7.12 level. However, since many economic indices in the U.S. turned out to be weak, market participants actively sold the U.S. dollar, and on September 5, the U.S. dollar/Chinese yuan exchange rate fell below the CNY 7.10 level once again. Then, on September 6, the U.S. dollar/Chinese yuan exchange rate returned to the lower-CNY 7.08 level. However, on the same day at night, the August employment statistics of the U.S. were released, strengthening the U.S. dollar. This led the U.S. dollar/Chinese yuan exchange rate to rise to the CNY 7.10 level, and trading closed at this level.

On September 9, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 7.10 level. The August price statistics of China were released thereafter with weaker figures than expected. As a consequence, stock prices fell and bond prices rose in China. Under such circumstances, market participants actively sold the Chinese yuan during the first half of the week, and the U.S. dollar/Chinese yuan exchange rate rose to the upper-CNY 7.12 level on September 10. Thereafter, market participants sold the U.S. dollar on September 11, as they saw an advantage for Kamala Harris in the election after seeing the U.S. Presidential debates on television. Furthermore, on September 12 local time in Europe, the European Central Bank decided to cut its policy interest rate, as had been anticipated in the market. However, since the decision was not as dovish as expected, the euro appreciated against the U.S. dollar. Following this trend, the U.S. dollar weakened against the Chinese yuan in the U.S. dollar/Chinese yuan exchange market toward the second half of the week. On September 13, the U.S. dollar/Chinese yuan exchange market closed trading at the mid-CNY 7.09 level.

After the consecutive holidays for China's Mid-Autumn Festival, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 7.09 level on September 18. As market participants were waiting for a Federal Open Market Committee (FOMC) meeting in the U.S., the U.S. dollar/Chinese yuan exchange rate remained low. Thereafter, the FOMC decided to cut its policy interest rate by 50 basis points, and the U.S. dollar/Chinese yuan exchange rate fell and temporarily reached the CNY 7.07 level. However, the median value in the dot plot for the long-term outlook was revised upward from 2.750% to 2.875%, confirming that the pace of policy interest rate cuts was faster than expected in the market. Therefore, market participants did not sell the U.S. dollar very actively after the policy interest rate cut. On September 19, the following day, the U.S. dollar/Chinese yuan exchange market opened trading with the exchange rate rallying to the CNY 7.10 level. However, the exchange rate did not rise further, and market participants started to sell the U.S. dollar again. As a result, the U.S. dollar/Chinese yuan exchange rate renewed its recent low. On September 20, the U.S. dollar/Chinese yuan exchange market closed trading by falling to the CNY 7.04 level.

On September 23, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 7.04 level. On September 24, the People's Bank of China (PBOC) announced its decision to cut its policy interest rate along with various measures of monetary easing. This encouraged market participants to buy the Chinese yuan actively. As of September 26, the U.S. dollar/Chinese yuan pair was trading by falling to the CNY 7.01 level.

2. Outlook for This Month

In October, the U.S. dollar/Chinese yuan exchange rate is forecast to fall and rally thereafter.

On September 24, the PBOC announced its decision to cut its deposit reserve requirement ratio by 50 basis points and the seven-day reverse repo rate by 20 basis points, while also cutting the MLF and the LPR. Furthermore, the PBOC also announced various kinds of monetary measures, such as support for the housing and stock markets. Market participants had seen the willingness of the PBOC to achieve the GDP growth target rate, which caused a positive feeling in the market, strengthening the Chinese yuan. It is expected that the Chinese yuan will continue appreciating for a while based on expectations for economic recovery. However, if there is no more improvement in economic indices, it is also possible for the Chinese yuan to depreciate again, about which market participants should be cautious.

On the other hand, the policy interest rate in the U.S. was cut by 50 basis points at the FOMC held in the U.S. in September. The FOMC emphasized that it would not hurry and cut its policy interest rate further in the times ahead. However, the latest dot plot shows that two more policy interest rates cuts are expected by the end of the year. For this reason, downward pressure on the U.S. dollar is expected to persist in the market.

As discussed above, the U.S. dollar/Chinese yuan exchange rate fell sharply at the end of September, as the depreciation of the U.S. dollar and the appreciation of the Chinese yuan accelerated temporarily based on various factors seen both in the U.S. and China. Thus, market participants need to keep in mind that the U.S. dollar/Chinese yuan may fall below the CNY 7.0 level. In December 2022, the U.S. dollar/Chinese yuan exchange rate fell below the CNY 7.0 level, and in May 2023, the exchange rate exceeded the CNY 7.0 level. At both times, the U.S. dollar/Chinese yuan exchange rate moved fast without hovering around to fall below or exceed the psychological turning point. Therefore, it is possible for a certain trigger in the market to lead the U.S. dollar/Chinese yuan exchange rate to fall below the CNY 7.0 level to approach the CNY 6.9 level, as was the case previously. Thus, a sense of caution is necessary.

Once the factors that are currently weakening the U.S. dollar have subsided, volatility in the U.S. dollar/Chinese yuan market is expected to increase once more, as market trends will be following the U.S. Presidential election scheduled for November 5. Thus, market participants should remain cautious about the situation surrounding said election and news regarding U.S.-China relations.

Ayaka Matsumoto, Asia & Oceania Treasury Department

Singapore Dollar – October 2024

Expected Ranges	**Against the US$: SG$ 1.2500–1.3200**
	Against the yen: JPY 106.00–116.00

1. Review of the Previous Month

In September, the Singapore dollar slowly 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 1.30 level on September 2. However, there were not many signs of movement at the beginning of the month, as the market was closed in the U.S. on Labor Day. Thereafter, the U.S. economic indices related to employment all turned out to be weak, including the July number of JOLT job openings in the U.S. announced on September 4, as well as the August ADP employment statistics of the U.S. announced on September 5. As a result, the U.S. dollar/Singapore dollar exchange fell below the SGD 1.30 level, which had been a psychological turning point. Then, on September 6, the August employment statistics of the U.S. were released with both strong and weak figures, causing some fluctuations in the U.S. dollar/Singapore dollar exchange market. However, market participants sold the U.S. dollar thereafter, reacting to a dovish statement made by the Federal Reserve Board (FRB) governor, Christopher Waller. Consequently, the U.S. dollar/Singapore dollar exchange rate fell and approached the mid-SGD 1.29 level.

On September 9, the trend of U.S. dollar-selling that had started at the end of the previous week slowed down. However, there were few signs of movement in the U.S. dollar/Singapore dollar exchange market, as there were no new factors, and the exchange rate continued fluctuating at around the mid-SGD 1.30 level. On September 11, many market participants expected Kamala Harris to win at the election after seeing the U.S. Presidential debates on television. As a result, the U.S. dollar was sold, and the U.S. dollar/Singapore dollar exchange rate fell to approach the SGD 1.30 level. Thereafter, the U.S. economic indices turn out to be weak, which led market participants to expect the FRB to cut its policy interest rate. As a result, the U.S. dollar/Singapore dollar exchange rate fell slowly and reached the upper-SGD 1.29 level at the end of the week on September 13.

On September 16, many markets in Asia were closed. Under such a condition, there were few transactions involving currencies of Asian countries. Following this trend, the U.S. dollar/Singapore dollar exchange rate did not move significantly. Thereafter, Asian currencies appreciated slowly against the U.S. dollar, as expectation was growing for the FRB to carry out a significant policy interest rate cut at the Federal Open Market Committee (FOMC) meeting that was approaching. On September 18, the FOMC meeting was held, attracting substantial interest in the market, and the policy interest rate was cut by 50 basis points as had been anticipated by most market participants. Even though this accelerated U.S. dollar-selling temporarily, the U.S. dollar rallied thereafter, as FRB Chair Jerome Powell emphasized at the press conference after the meeting that he would not hurry to cut the policy interest rate. As a consequence, the U.S. dollar/Singapore dollar exchange rate temporarily reached the SGD 1.30 level on the same day. However, it did not last for a long time, and together with interest rates in the U.S., the U.S. dollar/Singapore dollar exchange rate fell to approach SGD 1.29 toward September 20 at the end of the week.

On September 23, the August Consumer Price Index (CPI) of Singapore was announced, and the headline CPI turned out to be +2.2% year-on-year, revealing a slowdown compared to the previous result. However, this news did not impact the U.S. dollar/Singapore dollar market significantly. On September 24, the People's Bank of China (PBOC) announced economic stimulus measures, which led Asian currencies to appreciate against the U.S. dollar. As a result, the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.28 level. Thereafter, the U.S. dollar/Singapore dollar exchange rate continued fluctuating mainly at the upper-SGD 1.28 level toward the end of the month.

2. Outlook for This Month

In October, the U.S. dollar/Singapore dollar exchange rate is forecast to continue fluctuating at the same level.

In September, the U.S. dollar/Singapore dollar exchange rate fell, following the trend of U.S. dollar-selling based on the weak figures in the U.S. economic figures as well as the decision by the FRB to cut the policy interest rate by 50 basis points. Once the September FOMC meeting is now over and to some extent the market has already reflected further policy interest rate cuts expected before the end of the year. For these reasons, the U.S. dollar/Singapore dollar exchange rate is forecast to fluctuate at the same level until there are new factors in the market.

At the FOMC meeting in September, the FRB decided to cut its policy interest rate by 50 basis points. Besides, the dot plot released in September indicated more significant policy interest rate cuts before the end of 2024. Thus, this means that the expected policy interest rate cuts have been brought forward compared to the outlook released in June. However, it is important to keep in mind that the policy interest rate cuts expected before the end of the year have already been reflected in the market to some extent. It is also worth noting that there are both dovish and hawkish remarks by FRB officials regarding policy interest rate cuts in the times ahead. Thus, the U.S. dollar is not likely to weaken further without new factors in the market.

In Singapore, on the other hand, the Monetary Authority of Singapore (MAS) is scheduled to have a meeting in October. The August headline CPI of Singapore turned out to be +2.2% year-on-year, revealing a slowdown from the previous figure. Since this is the lowest level in approximately three years and four months, some economists see reasons for the MAS to consider monetary easing. However, at the previous meeting, the MAS mentioned the possibility for the domestic labor costs to increase again, remaining cautious about monetary easing. It is also worth noting that the Ministry of Trade and Industry revised Singapore's economic growth outlook for FY2024 upward from 1.0–3.0% to 2.0–3.0%, expecting steady external demand for the rest of the year. Based on these reasons, the economic situation in Singapore is considered robust, and it is not likely for the MAS to change its monetary policy at its October meeting.

Thus, in the U.S. dollar/Singapore dollar exchange market, there are no sufficient factors to accelerate U.S. dollar-selling. The U.S. dollar/Singapore dollar exchange rate is therefore expected to continue fluctuating in both directions in October, reacting to the outcome of the MAS meeting as well as the economic indices of the U.S.

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

Thai Baht – October 2024

Expected Ranges **Against the US$: THB 32.10–33.80**
Against the yen: JPY 4.30–4.60

1. Review of the Previous Month

In September, the U.S. dollar/Thai baht exchange rate fell.

The U.S. dollar/Thai baht exchange market opened trading at the lower-THB 34 level. At the beginning of the month, the exchange rate rose. However, on September 4, the July JOLT job openings in the U.S. were confirmed to be at the lowest level in approximately 3.5 years, and this encouraged market participants to sell U.S. dollar. As a result, the U.S. dollar/Thai baht exchange rate fell to approach THB 34. On the following day, the August Consumer Price Index (CPI) of Thailand was announced, and the result turned out to be 0.35% year-on-year, revealing a slowdown since the previous result. However, this did not stop the U.S. dollar/Thai baht exchange rate from falling. The exchange rate continued falling and approached the mid-THB 33 level at around the time of the release of the August employment statistics and labor-related indices of the U.S. Yet, the fall of the U.S. dollar/Thai baht exchange rate slowed down thereafter, as there were some high officials in Thailand that made warning remarks regarding the appreciation of the Thai baht.

In the middle of the month, the August Producer Price Index (PPI) of the U.S. was announced on September 12, and the previous month's result was revised downward. Furthermore, the number of new unemployment insurance claims turned out to be worse than expected in the market. In reaction to this, the U.S. dollar/Thai baht exchange rate started to fall again. Thereafter, more market participants expected a significant policy interest rate cut in the U.S., and the U.S. dollar/Thai baht exchange rate remained low. However, on September 18, the U.S. economic indices, such as the August retail sales of the U.S., turned out to be strong before the announcement of the outcome of a Federal Open Market Committee (FOMC) meeting. In reaction, the U.S. dollar/Thai baht exchange rate stopped falling at the lower-THB 33 level.

At the end of the month, the Federal Reserve Board (FRB) decided to cut its policy interest rate by 50 basis points at the FOMC meeting, which was held with substantial attention in the market. However, FRB Chair Jerome Powell spoke at the press conference and emphasized that the policy interest rate would not be cut by 50 basis points every time in the future and that the FRB was not in a hurry to cut the policy interest rate. In reaction, the U.S. dollar/Thai baht exchange rate rose and temporarily approached the mid-THB 33 level. However, this trend did not last for a long time, and market participants increasingly started to sell the U.S. dollar, leading the U.S. dollar/Thai baht exchange rate to fall slowly to the lower-THB 33 level. Then, on September 20, the governor of the central bank of Thailand, Sethaput Suthiwartnarueput, stated that policy interest rate cuts might cause a crisis, as they would hinder long-term growth. This confirmed the opposition between the central bank and the government, which had been repeatedly asking for policy interest rate cuts. Consequently, the U.S. dollar/Thai baht exchange rate fell in an accelerated manner and fell below the THB 33 level. Thereafter, the U.S. dollar/Thai baht exchange rate remained low toward the end of the month, and as of the time at which this article was being written, the U.S. dollar/Thai baht exchange rate was shifting at around the mid-THB 32 level.

2. Outlook for This Month

In October, the sharp fall of the U.S. dollar/Thai baht exchange rate is forecast to slow down.

The Thai baht has thus far appreciated against the U.S. dollar by almost 13% compared to the beginning of July when the U.S. dollar/Thai baht exchange rate started to fall. The appreciation of the Thai baht has been the second largest among the Asian currencies after the Malaysian ringgit (appreciated by almost 14% against the U.S. dollar). It is considered that the Thai baht appreciated because of consistent expectation for large-scale policy interest rate cuts in the U.S., as can be seen in the fact that the market is gradually reflecting a policy interest rate cut of 0.50% at the FOMC meeting to be held in November. Furthermore, the appreciation of the Thai baht is also considered to be a result of the appreciation of the overall Asian currencies based on the large-scale economic stimulus announced in China. Under such circumstances, some market participants are worried about the sharp appreciation of the Thai baht. The finance minister, Pichai Chunhavajira, has repeatedly been requesting a cut of the policy interest rate, as the appreciation of the Thai baht has been negatively affecting exports. Moreover, the Thai Chamber of Commerce, as well as industry groups, are also concerned about the appreciation of the Thai baht and are asking the central bank of Thailand to take measures. Given the current market environment, the opposition is now not only involving the government and the central bank of Thailand, as had been previously seen, but also the private sector. In reaction to this change of the opposition structure, the Ministry of Finance and the central bank of Thailand scheduled negotiations in the week starting from September 30 on the topic of the inflation target and the appreciation of the Thai baht. Market participants need to see whether the central bank of Thailand will change its attitude after the negotiations. It is also worth noting that, on September 25, the central bank released a message that it would monitor and control the movement of the U.S. dollar/Thai baht exchange rate, as well as control the volatility of the U.S. dollar/Thai baht exchange rate, in order to minimize the impact on business. Thus, market participants are growing somewhat cautious about market interventions by the central bank of Thailand. Since there is also a sense of uncertainly regarding the change in the opposition structure regarding the monetary policy, it seems difficult for market participants to continue buying the Thai baht in the times ahead. For this reason, the Thai baht is forecast to temporarily stop appreciating against the U.S. dollar in October.

Kazuhiro Suzuki, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – October 2024

Expected Ranges **Against the US$: MYR 4.01–4.20**
Against the yen: JPY 34.50–36.00

1. Review of the Previous Month

In September, the U.S. dollar/Malaysian ringgit exchange rate fell to renew its lowest level in the year, with the Malaysian ringgit reaching its highest rate against the U.S. in approximately three years.

The U.S. dollar/Malaysian ringgit exchange market opened trading at the MYR 4.31 level, after which the July personal consumption in the U.S. was announced and the result turned out to be stronger than the figure in August. As a result, the U.S. dollar started strengthening at the beginning of the month. Meanwhile, the August manufacturing industry Purchasing Managers' Index (PMI) of Malaysia remained flat from the previous month, and the U.S. dollar/Malaysian ringgit exchange rate reached the upper-MYR 4.35 level. Thereafter, there was a moment of adjustment, when market participants were waiting for the release of the August employment statistics of the U.S., and the U.S. dollar/Malaysian ringgit exchange rate continue rising to reach the MYR 4.38 level. However, the trade deficit of the U.S. expanded, and the July number of new job postings in the U.S. recorded the lowest figure in approximately 3.5 years, which reversed the changed in the market, and the U.S. dollar/Malaysian ringgit exchange rate started to fall. Also, at the Monetary Policy Committee (MPC) meeting held by the central bank of Malaysia, the policy interest rate was maintained at the existing level, as had been anticipated in the market. However, since an evaluation of the Malaysian economy was positive, the U.S. dollar/Malaysian ringgit exchange rate returned to the MYR 4.33 level. After the release of the August employment statistics of the U.S., which was not excessively worrying, the U.S. dollar/Malaysian ringgit exchange rate rose to the MYR 4.37 level, as expectations for a policy interest rate cut of 50 basis points in the U.S. in the September Federal Open Market Committee (FOMC) meeting had slightly receded. Yet, once the July manufacturing sales of Malaysia recorded positive growth of +9.1% year-on-year, which largely exceeded the market estimate, this led the U.S. dollar/Malaysian ringgit exchange rate to fall to the MYR 4.33 level. Thereafter, the August Consumer Price Index (CPI) of the U.S. turned out to be almost the same as the market estimate, and this kept the exchange rate stable on September 12. Subsequently, the European Central Bank (ECB) decided to cut its policy interest rate for the second time. In reaction, market participants expected the Federal Reserve Board (FRB) to cut its policy interest rate by 50 basis points. As a consequence, the U.S. dollar/Malaysian ringgit exchange rate fell to the MYR 4.30 level on September 13, even though it was before three consecutive holidays.

After a national holiday, foreign investors' funds continued flowing into the stock and bond markets in Malaysia on September 17, even though this was before an FOMC meeting. Therefore, the U.S. dollar/Malaysian ringgit exchange rate fell to the MYR 4.25 level. At the September FOMC meeting, the policy interest rate was cut by 50 basis points. Market participants understood that the FRB decided to cut its policy interest rate in order to prevent further weakening of the labor market and the U.S. economy, preemptively. This became a positive factor for the currencies of emerging countries, and the U.S. dollar weakened in an accelerated manner against the Malaysian ringgit as well as other currencies. In the August trade statistics of Malaysia as well, both imports and exports turned out to be strong, even though the trade surplus decreased. Since market participants saw the strength of the

Malaysian economy, the U.S. dollar/Malaysian ringgit exchange rate finally fell below the MYR 4.20 mark on September 20. Thereafter, the U.S. dollar/Malaysian ringgit exchange rate continued falling. On September 24, the Chinese monetary authorities cut the seven-day interest rate, which was newly defined as a policy interest rate. This measure of monetary easing had not been anticipated in the market. Positively reacting to this, the Chinese yuan strengthened. Following this trend, the Malaysian ringgit appreciated further and maintained its strength on both September 24 and 25. As a result, the U.S. dollar/Malaysian ringgit exchange rate once approached the MYR 4.0 level. However, the exchange rate did not reach the MYR 4.0 level and remained fluctuating at the lower-MYR 4.10 level until the U.S. dollar/Malaysian ringgit exchange market closed trading on September 26.

2. Outlook for This Month

After reaching its highest rate against the U.S. dollar in approximately three years, the Malaysian ringgit may strengthen further against the U.S. dollar in October.

As of September 26, the Malaysian ringgit appreciated against the U.S. dollar by approximately 11% compared to the exchange rate observed at the end of last year, and the appreciation of the Malaysian ringgit is more significant than most other currencies. The same thing can also be said when looking at the appreciation of the Malaysian ringgit against the U.S. dollar from the end of August to the time when this article was being written, as the Malaysian ringgit appreciated by more than 4% in approximately one month. Malaysian officials also stated that the Madani policy introduced last year was working well and that foreign investors were positively evaluating it. This shows that capital inflow from foreign investors drastically changed the trend in the U.S. dollar/Malaysian ringgit exchange market from that of the first and second quarters in which the Malaysian ringgit depreciated.

In terms of real figures, approximately USD 2.5 billion flew into the Malaysian bond market in July and August, accounting for 90% of the total net inflow this year. Furthermore, the same trend can be observed in capital inflow into the Malaysian stock market. As of the time at which this article was being written, the total inflow of the year was approximately USD 900 million, out of which USD 800 million flew into Malaysia in July and August, completely offsetting the capital outflow observed during the first half of this year.

Demand for durable goods has been increasing, such as the number of vehicles sold (revised upward). Furthermore, the GDP growth rate was +5.1% in the first half of 2024, exceeding 5.0%—the upper end of the band set out by the government. Therefore, the advantageous capital flow for Malaysia is thanks to both demand based on actual figures in economic indices and demand based on expected economic growth.

There have been persistent concerns over the economic outlook of China, which is a major trade partner for Malaysia. However, it is likely for market participants to choose Malaysia as the destination for investment, as Malaysia has strong figures in its economic indices. In October, the third-quarter GDP of Malaysia is also scheduled to be out, and the result is expected to be strong. Since the economic growth rate of Malaysia is forecast to remain high, it is most likely for the U.S. dollar/Malaysian ringgit exchange rate to fall even further in the times ahead.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – October 2024

Expected Ranges	**Against the US$: IDR 14,900–15,400**
	Against the yen: JPY 0.9259–0.9709 (IDR 100)

1. Review of the Previous Month

In September, the Indonesian rupiah appreciated against the U.S. dollar.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 15,400 level. At the end of the previous week, the U.S. economic indices had been released with strong figures. As a result, market participants actively bought the U.S. dollar, and the U.S. dollar strengthened against the Indonesian rupiah, bringing the U.S. dollar/Indonesian rupiah exchange rate to the lower-IDR 15,500 level. On the same day, the August Consumer Price Index (CPI) of Indonesia was announced, and the result was slightly above the market estimate. However, there was little reaction to this news in the market. On September 3, the following day, market participants continued buying the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rare reached the mid-IDR 15,500 level—the monthly high. However, market participants gradually started to sell the U.S. dollar thereafter, as the release of the August employment statistics of the U.S. were scheduled in the second half of the week, and the August ISM manufacturing business confidence index of the U.S. had been announced on September 3, local time in the U.S., with a result weaker than the market estimate. Consequently, the U.S. dollar weakened, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 15,300 level by September 6. On September 6 local time in the U.S., the August employment statistics of the U.S. were released with figures slightly weaker than the market estimate. However, there was only limited reaction in the market. On September 9, after the weekend, the U.S. dollar/Indonesian rupiah exchange market opened trading at the lower-IDR 15,400 level. An increasing number of market participants were expecting the Federal Open Market Committee (FOMC) to cut its policy interest rate by 0.25% at its meeting scheduled for September 18. Under such circumstances, the U.S. dollar/Indonesian rupiah exchange rate fell slightly to the upper-IDR 15,400 level. However, after the Presidential debates in the U.S. held on September 11, Kamala Harris was seen to have advantage in the election, and this weakened the U.S. dollar in the market. As a result, the U.S. dollar depreciated against the Indonesian rupiah, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 15,300 level.

After consecutive holidays, the U.S. dollar/Indonesian rupiah exchange market opened trading at around the IDR 15,400 level on September 17. There were little signs of movement in the market thereafter, and the U.S. dollar/Indonesian rupiah exchange market continued fluctuating at around the IDR 15,400 level, as the central bank of Indonesia was to hold a monetary policy meeting on the following day. At this meeting, the policy interest rate was cut by 0.25%, which had not been anticipated in the market. At the previous meeting, the central bank of Indonesia had hinted at a policy interest rate cut in the fourth quarter, so this decision means that the policy interest rate cut timing had been brought forward from the original plan. Regarding the decision to cut the policy interest rate, the central bank of Indonesia gave reasons such as certainty about a policy interest rate cut in the U.S. and the further appreciation of the Indonesian rupiah. Even though this decision was a surprise, there was little reaction in the foreign exchange market, as an FOMC meeting was scheduled for the same day local time in the U.S. At the FOMC meeting held thereafter, the policy interest rate was cut by 0.5%. In reaction, the U.S. dollar weakened against the Indonesian rupiah, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 15,200 level on September 19, the following day, local time in Indonesia. Thereafter, risk sentiment in the market improved, and the U.S. dollar continued weakening, while Asian currencies continued strengthening. Under such circumstances, the Indonesian rupiah exchange rate appreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate temporality fell below the IDR 15,100. On September 24, China announced monetary easing measures, which improved risk sentiment. Thus, Asian currencies rose against the U.S. dollar. Under such circumstances, the U.S. dollar/Indonesian rupiah exchange rate also rose to temporarily reach the mid-IDR 15,000 level.

2. Outlook for This Month

In October, the Indonesian rupiah is forecast to remain strong.

In September, the Federal Reserve Board (FRB) decided to cut its policy interest rate in the U.S. by 0.5%. Furthermore, the monetary authorities of China announced a decision to introduce economic stimulus measures. In reaction, the U.S. dollar depreciated, while Asian currencies appreciated. In the end, the central bank of Indonesia succeeded in starting to cut its policy interest rate while avoiding the depreciation of the Indonesian rupiah. The central bank of Indonesia released a comment such that it would continue observing any possibility for further policy interest rate cuts. However, the central bank does not seem proactive enough to cut its policy interest rate for a second consecutive month. Thus, while the policy interest rate in Indonesia is generally on a downtrend, the central bank of Indonesia is likely to remain cautious and take time before making decisions to cut. The central bank of Indonesia is therefore expected to continue observing the U.S. dollar/Indonesian ringgit exchange rate as well as the domestic economy for a while, in order to find the right time for the next policy interest rate cut. By the end of the year, policy interest rate cuts of 0.75% are expected in the U.S. interest rate market. Policy interest rate cuts in Indonesia are likely to be more moderate than in the U.S. In such a situation, the Indonesian rupiah is more prone to strengthen against the U.S. dollar.

Furthermore, it is also worth noting that the new Indonesia president, Prabowo Subianto, is scheduled to take office on October 20. The new president is seen as favorable to fiscal expansion, including the provision of free school lunches. However, in the budget bill for next fiscal year, which was submitted in August, he predicted the fiscal deficit to be relatively small, mitigating concerns over fiscal uncertainty. After his appointment to the post of president, Prabowo Subianto is expected to take over the policy of the former president Joko Widodo for the time being. Thus, there is no likely impact on the foreign exchange market significantly from a short-term point of view.

On the other hand, the U.S. Presidential election scheduled for November is likely to impact the U.S. dollar/Indonesian rupiah exchange market. After the U.S. Presidential debates in September, many market participants saw advantages for Kamala Harris, and this weakened the U.S. dollar in the foreign exchange market. Thus, in the U.S. dollar/Indonesian rupiah exchange market, a victory by Kamala Harris is likely to lead to the depreciation of the U.S. dollar, while a victory by Donald Trump is likely to lead to the appreciation of the U.S. dollar. Some media have reported that the poll results had revealed more expectations for Kamala Harris to win. However, the structure of the election is similar to that of the Presidential election in 2015 when Hillary Clinton was competing against Donald Trump. Under such circumstances, therefore, it is possible for the U.S. dollar to start strengthening against the Indonesian rupiah in the times ahead, depending on the market conditions, about which market participants should be careful.

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

Philippine Peso – October 2024

Expected Ranges **Against the US$: PHP 55.50–57.00**
Against the yen: PHP 0.380–0.400

1. Review of the Previous Month

In September, the U.S. dollar/Philippine peso exchange rate fluctuated in both directions, although the Philippine peso gradually strengthened.

In September, the U.S. dollar/Philippine peso exchange market opened trading at PHP 56.22. At the beginning of the month, a heavy rainfall warning was issued due to a typhoon. Thus, the foreign exchange market was closed in the afternoon of September 2. On September 3, the following day, market participants actively bought the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate rose to PHP 56.74—the monthly high for the U.S. dollar and the monthly low for the Philippine peso. Thereafter, the August Consumer Price Index (CPI, year-on-year) of the Philippines was announced on September 5, and the result turned out to be +3.3%, whereas the market estimate was +3.6% and the previous month's result was +4.4%. The central bank of the Philippines made a comment such that the price level was expected to be on a downtrend in 2024 and 2025, and thus inflation pressure was likely to be mitigated in the times ahead. This fueled expectation for a policy interest rate cut and monetary stimulus measures to be introduced at the October meeting of the central bank of Philippines. As a consequence, market participants bought the Philippine peso, and the U.S. dollar/Philippine peso exchange rate reached the upper-PHP 55 level for the first time since March this year.

In the middle of September, there were mixed feelings in the market, reacting to various events such as the debates for the U.S. Presidential election as well as the announcement of the result of the August price statistics in the U.S. However, expectation for a policy interest rate cut of 0.50% in the September Federal Open Market Committee (FOMC) meeting in the U.S. grew gradually. Under such circumstances, the U.S. dollar/Philippine peso exchange rate continued falling. The policy interest rate of the U.S. was indeed cut by 0.50%. Thereafter, a government official of the Philippines mentioned the possibility for the policy interest rate of the Philippines to also be cut by 0.50% at the October meeting of the central bank of the Philippines. The U.S. dollar/Philippine peso exchange rate fluctuated in both directions, but market participants bought the Philippine peso more dominantly in the end. As a consequence, the U.S. dollar/Philippine peso exchange rate once approached the mid-PHP 55 level.

At the end of September, the central bank of the Philippines made an unexpected announcement that the deposit reserve requirement ratio would be cut by 2.5% and that such would be applied in October. In reaction, the U.S. dollar/Philippine peso exchange rate returned to the upper-PHP 55 level. Regarding the actions to be taken by the central banks in the U.S. and the Philippines, respectively, there were split views in the market. Therefore, market participants adjusted positions, and the U.S. dollar/Philippine peso exchange rate returned to the lower-PHP 56 level once again. Toward the end of the month, the U.S. dollar/Philippine peso exchange rate continued fluctuating without moving in any direction.

2. Outlook for This Month

In October, the U.S. dollar/Philippine peso exchange rate is forecast to stabilize at around the PHP 55 level based on policy interest rate trends in the Philippines.

Until the September FOMC meeting, market participants' opinions remained split regarding how much the policy interest rate would be cut. Regarding the FOMC meeting to be held in November as well, it is uncertain whether the policy interest rate will be cut by 0.25% or by 0.50%. Such a decision would depend on economic indices to be released in the times ahead. The U.S. dollar/Philippine peso exchange rate is therefore likely to continue to fluctuate in response to the results of different economic indices. Up until now, it seems that market participants tended to sell the U.S. dollar because of their growing expectation for the start of policy interest rate cuts in the U.S. based on the recent weak figures in the U.S. economic indices. This set off the trend in the first half of this year in which the U.S. dollar was strengthening too substantially. In the times ahead, market participants are likely to react more sensitively to strong figures in economic indices in the U.S., and this is likely to impact the decision on how much the policy interest rate will be cut.

On the other hand, the central bank of the Philippines decided to cut its policy interest rate by 0.25% in August ahead of the U.S. Subsequently, the central bank also decided to cut its deposit reserve requirement ratio in September. As is with the case in the U.S., it is difficult to predict whether the central bank of the Philippines will cut its policy interest rate by 0.25% or 0.50% in October. However, given that the central bank of the Philippines seems confident in controlling inflation pressure, it is possible for the policy interest rate to be cut by 0.50%. The first important data would be the September price statistics of the Philippines that are to be released on October 4. With speculations about whether and how much the policy interest rate will be cut by the central bank of the Philippines at the meeting scheduled for October 17, the U.S. dollar/Philippine peso exchange rate is most likely to fluctuate within a range between PHP 55.50 and PHP 56.50 until the middle of October.

Toward the second half of October, the U.S. dollar/Philippine peso exchange rate is expected to fluctuate frequently, reacting to figures in the U.S. economic indices and remarks made by government officials, while waiting for the November FOMC meeting in the U.S. As market participants are like to actively adjust positions, the U.S. dollar/Philippine peso exchange rate is likely to move in either direction, without remaining stable at one point. Under such circumstances, the U.S. dollar/Philippine peso exchange rate may temporarily touch both upper and lower ends of the expected fluctuation range.

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

Indian Rupee – October 2024

Expected Ranges **Against the US$: INR 83.10–84.00**
Against the yen: JPY 1.66–1.79

1. Review of the Previous Month

In September, the Indian rupee strengthened, and the U.S. dollar/Indian rupee exchange rate fell once below the mid-INR 83 level.

In September, the U.S. dollar/Indian rupee exchange market opened trading at the upper-INR 83.80 level. At the beginning of the month, the exchange rate remained low and fell slowly. However, the Reserve Bank of India (RBI) carried out foreign exchange market interventions to mitigate pressure to sell the U.S. dollar and keep the U.S. dollar/Indian rupee exchange rate from falling further (by buying the U.S. dollar and selling the Indian rupee). As a result, market participants did not buy the Indian rupee excessively, and the U.S. dollar/Indian rupee exchange rate remained flat thereafter. In the middle of the month, the RBI also intermittently carried out foreign exchange market interventions to keep the U.S. dollar/Indian rupee exchange rate from rising further (by selling the U.S. dollar and buying the Indian rupee). Thus, the U.S. dollar/Indian rupee exchange rate did not rise significantly. At the end of the month, the Indian rupee appreciated, and the U.S. dollar/Indian rupee exchange rate fell once below the mid-INR 83 level based on transactions based on actual demand. However, the RBI intervened in the foreign exchange market again to keep the U.S. dollar/Indian rupee exchange rate from falling further. Consequently, the U.S. dollar/Indian rupee exchange rate rallied. In the end, the U.S. dollar/Indian rupee exchange market closed trading by recovering to the INR 83.50 level (as of September 23).

At the beginning of the month, the BSE SENSEX opened trading at around the 82,500 level, after which the index remained strong. However, some market participants placed profit-taking sells, and the index once fell below the 81,000 level. On the other hand, the pressure to sell did not strengthen further, and the index rallied immediately. From the middle to the end of the month, the index started to rise and remained on an uptrend, renewing the high of the year once again (as of September 23). The inflow of investment funds from foreign investors continue to flow into the Indian stock market in an increasingly accelerated manner. In September, the amount of net buys saw a remarkable increase, confirming the return of capital inflow.

With regard to economic indices in India, there were both strong and weak figures in the August manufacturing and service industries Purchasing Managers' Index (PMI). However, the July industrial production turned out to be stronger than the market estimate, while the previous figure was also revised upward. The August Consumer Price Index (CPI, year-on-year) turned out to be +3.65%, with a slight rise from +3.54%—the previous month's result. The August trade balance revealed an expansion in trade deficit with an increase in gold imports, partially due to a reduction in gold import duties. Thus, there has still been a consistent trade deficit in India, as a result of which the Indian rupee remains a weak currency.

2. Outlook for This Month

In October, the U.S. dollar/Indian rupee exchange rate is forecast to fluctuate within a narrow range, while the Indian rupee will be remaining weak.

In October, the U.S. dollar/Indian rupee exchange rate is forecast to fluctuate within a narrow range, while the Indian rupee will be remaining weak. In September, the RBI countered the pressure to sell the U.S. dollar by intervening in the foreign exchange market (by buying the U.S. dollar and selling the Indian rupee), keeping the U.S. dollar/Indian rupee exchange rate from falling further. As a result, the Indian rupee remained weak. At the same time, however, there were also transactions based on actual demand, which led the U.S. dollar/Indian rupee exchange rate to return to the mid-INR 83 level. Meanwhile, the RBI continued intervening in the foreign exchange market to keep the U.S. dollar/Indian rupee exchange rate from falling. Thus, with the same trend, the Indian rupee is likely to remain generally weak, while the U.S. dollar/Indian rupee exchange rate is expected to fluctuate within a narrow range.

The August CPI of India recorded a slight rise from the previous month's result. However, it is still close to the lower end of the inflation target range at the +4.0% level. On the other hand, it is worth taking into account that there was a base effect factor for the August CPI last year, as was the case with the July CPI, as it rose sharply following a significant increase in food prices due to bad weather. In order to predict the monetary policy of the RBI in October and beyond, it is necessary to wait for the announcement of the September CPI and to evaluate if disinflation is really occurring. The most likely scenario for the RBI is to enter a phase of policy interest rate cuts. However, depending on inflation trends, it is possible for the policy interest rate to be postponed.

In terms of investment capital inflow, there was net buying in both the stock and bond markets in India in September. In particular, investment capital inflow into the Indian stock market has seen a remarkable increase. Market participants should therefore keep in mind that the acceleration of the capital inflow may keep the Indian rupee from appreciating, although the Indian rupee could appreciate in general with growing pressure in the market to sell the U.S. dollar under the phase of policy interest cuts in the U.S. It is also worth noting that the impact of U.S. dollar-selling may not be significant given how much the market has already reflected this factor. On the contrary, it is important to expect the return of capital inflow from the U.S. after the U.S. Presidential election, which is a big event for the year. Furthermore, the RBI is expected to continue intervening in the foreign exchange market in order to keep the U.S. dollar/Indian rupee exchange rate from falling, while there will also be market participants selling the Indian rupee based on actual demand. For these reasons, from a medium- to long-term point of view, the Indian rupee is expected to start weakening against the U.S. dollar again.