Mizuho Dealer's Eye

December 2024

Mizuho Bank, Ltd.

Global Markets Sales & Trading Department

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U.S. Dollar – December 2024

Expected Ranges **Against the yen: JPY148.00–155.00**

1. Review of the Previous Month

In November, the dollar/yen pair rose on Trump trades following the results of the US presidential election, though it then fell sharply as the yen was bought towards the month's end.

The pair opened the month trading at 151.98 yen. The US then released some worse-than-expected employment data for October, so the pair temporarily dropped to the upper-151 yen mark. After a round of selling, it then bounced back to around 153 yen on rising US interest rates. However, it moved with a heavy topside in the week beginning November 4 and it fell to the lower-151 yen mark for a time on November 6. The currency pair then strengthened to 154.70 yen on reports that Donald Trump would win the presidential election. The pair moved at highs on November 7, though it then tumbled to right around 154 yen after Japan's top currency diplomat Atsushi Mimura intervened verbally to curb the yen's slide. With the FOMC then deciding to lower rates, the pair moved around 153 yen toward the weekend.

The pair rose to 154 yen on November 12 on forecasts that the Republican Party would gain a majority in the House of Representatives. The pair then strengthened to the upper-154 yen mark on rising US interest rates. The trend of dollar bullishness continued from midweek onwards. On November 14, FRB chair Jerome Powell said there was no rush to lower rates, so expectations for a December rate cut waned and the currency pair broke through 156 yen. Amid dollar buying on November 15, the pair hit a monthly high of 156.76 yen on November 15. However, the greenback was then sold on position adjustments and falling US interest rates, so the pair dropped back to the 153 yen level.

Expectations for a Bank of Japan (BOJ) rate hike waned on November 18 following a speech by BOJ governor Kazuo Ueda, so the pair rallied to the lower-155 level. The pair weakened to the lower-153 yen mark on November 19 on geopolitical risk related to Russia and Ukraine, though it surged back to the upper-155 yen level on November 20 as tensions eased. Expectations for a December BOJ rate hike rose again on November 21 on comments by BOJ governor Kazuo Ueda, so the pair slid to the 153 yen level. The pair moved in a range around 154 yen on November 22 on the release of the October Japanese CPI data, though it then climbed to the upper-154 yen range when the US November Services PMI performed strongly.

In the final week, Donald Trump nominated Scott Bessent as his treasury secretary. As speculation grew that the Trump administrations expansionary fiscal policies would be reined in, US interest rates fell and the currency pair weakened to the mid-153 yen mark. On November 26, Donald Trump announced he would be slapping new tariffs on goods from Mexico and Canada as well as China. The greenback was subsequently bought, with the pair rising to the mid-154 yen level for a time. However, the yen was then bought on risk evasion related to concerns of a global economic slowdown, so the pair fell below 153 yen. The greenback was sold on November 27 on position adjustments before the Thanksgiving holidays, so the pair then tumbled to the mid-150 yen range. With the US on holiday on November 28, the pair moved in a range around 151 yen. However, Japan then released some strong Tokyo CPI data for November. With the yen also undergoing end-of-month buying, the pair temporarily dropped to 149.77 yen towards the month's end to then close Tokyo trading time in the lower-150 yen range.

2. Outlook for This Month

The dollar/yen pair is expected to move firmly this month. The most important factor this year was the US presidential election. This is now over, so the markets will turn their gaze back to Japanese and US monetary policy.

When it meets over December 17‑18, the FOMC looks set to postpone rate cuts on the firmness of the US employment market. The US November employment data will be released on December 6. The new applications for unemployment insurance data and other employment-related indicators released in November suggest the US labor market is moving firmly. Under these circumstances, investors are expecting nonfarm payrolls to rise by 200,000 in November. Nonfarm payrolls growth had dropped sharply below market expectations in October on the impact of hurricanes and strikes, but FRB chair Jerome Powell said the data would have moved firmly in the absence of these transitory factors, with the October data no cause for pessimism. The unemployment rate has moved around 4% since the pandemic, with the October rate also hitting 4.1%, not a bad figure at all. Powell also said there was no rush to lower rates. With other FRB officials also striking a wary tone about rate cuts, it seems the greenback could strengthen as expectations for rate cuts wane, even before the FOMC meeting, so caution will be needed.

On the other hand, the BOJ's Monetary Policy Meeting looks set to postpone rate hikes when it meets over December 18‑19. However, some investors are pricing in a 25bp rate hike if the economy and inflation moves in line with the BOJ's outlook. If the policy rate hits 0.5%, this could lead to public grumbling as mortgage rates rise despite wage growth remaining subdued, for example, so the BOJ will be wary about lifting rates again. In his press conference after the October meeting, BOJ governor Kazuo Ueda said new risks could emerge depending on the policies announced by the new US president, adding that he would like the BOJ to examine these risks when it met. The closely-watched launch of the Trump administration will take place next year on Monday, January 20, 2025. The BOJ will not have had much time to assess risks when it meets in December, so it seems too early for a BOJ rate hike right now.

Investors will be monitoring Japanese and US monetary policy, as mentioned above, but there is unlikely to be any policy shifts in either country. In recent years, the greenback has moved bearishly at the year's end, so market participants should pay attention to this anomaly. However, if Japanese/US interest-rate differentials do not shrink following the US and Japanese monetary policy events lined up this month, the dollar/yen pair looks set to move firmly for the remainer of the year.

Dealers' Market Forecast

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

Bullish on the dollar	9 bulls	155.00 – 148.00	Bearish on the dollar	8 bears	153.00 – 145.75

* Ranges are central values

Miyachi	Bear	153.00 – 145.00	In recent years, the dollar/yen pair has fallen towards the year's end. The yen will also move bullishly as investors focus on BOJ trends this month. There is also a risk of the cross yen undergoing some sharp euro-led adjustment, so caution will be needed.
Kawai	Bull	154.50 – 149.00	The FOMC and BOJ will be meeting to set policy mid-December. The markets are expecting the FOMC to postpone rate cuts and slow the pace at which it lowers rates, so the dollar/yen pair is likely to bounce back. However, investors might also focus on a rate hike in the BOJ Monetary Policy Meeting depending on the currency pair's level, so the pair's topside will be capped.
Kawabata	Bull	155.00 – 149.00	The trend of dollar bullishness came under some adjustment late November, with the yen moving particularly strongly. However, Japanese CPI growth remains low and there is considerable uncertainty about the Trump administration's policies, so the yen is unlikely to be bought further on expectations for rate rises. After a round of adjustment, the dollar/yen pair will start rising again at a gentle pace.
Kato	Bear	153.00 – 146.00	As expected, the labor market has started to cast clouds over the US economy, though this has been obscured by Trump trades, with the markets not taking much notice. However, Trump trades may soon be approaching their sell-by date, so caution will be needed.
Yamazaki	Bear	152.50 – 147.00	The dollar/yen pair will probably swing lower on shrinking Japanese/US interest-rate differentials. The BOJ is expected to implement a rate hike in December. Though the pair will weaken toward mid-December, it will bounce back towards the month's end, with its room on the downside capped.
Yamaguchi	Bull	155.00 – 148.00	The markets have already priced in a FRB rate cut and a BOJ rate hike, so the next step will be to gauge when these events will take place. In December, the yen will rise temporarily on US and Japanese policy shifts, but Japanese/US interest-rate differentials remain wide, so the dollar will continue to be preferred against the yen.
Tagawa	Bull	156.00 – 149.00	The dollar/yen pair is undergoing some adjustment, but the dollar looks set to rise again on (1) waning concerns about an US economic slowdown, with US indicators not performing too badly; (2) uncertainty about the policies of the upcoming Trump administration; (3) subdued expectations for BOJ rate hikes.
Matsunaga	Bull	155.00 – 148.50	Investors will test the dollar/yen pair's downside early December on caution about BOJ rate hikes, but one-sided yen bullishness seems unlikely given the divergent fundamentals of the US and Japan. The pair will continue to move bullishly.
Katoono	Bull	157.00 – 147.00	If indicators released early December point to the firmness of the US jobs market and the stickiness of inflation, this will lead to renewed expectations for a slower pace of FRB rate cuts. The dollar/yen pair will face downward pressure towards the year's end on expectations for further BOJ rate hikes, for example, but this is unlikely to be enough to pare back the pair's early-December gains.
Okuma	Bull	155.00 – 147.00	Though the dollar/yen pair's upwards momentum has temporarily cooled, dollar indicators remain at high levels. There are no dollar-selling factors apart from an unwinding of Trump trades. With the US economy also moving firmly, the pair will bounce back as the launch of the second Trump administration looms into view.
Ito (Motoi)	Bull	160.00 – 145.00	The yen has often strengthened at the year's end these past few years, but with the launch of the second Trump administration looming, the dollar will probably be pushed higher. No other countries seem to have the ebullience that the US has, so the dollar is likely to beat every other currency.

Han	Bear	151.50 – 145.00	Japanese inflation indicators have swung higher recently, so the yen will probably be bought on growing expectations for a rate hike ahead of the December BOJ Monetary Policy Meeting. There is also a strange trend whereby the dollar is sold in December, so the dollar/yen pair looks set to move with a heavy topside.
Suzuki	Bear	152.50 – 145.50	The market reaction in the last week of November suggests there are doubts about how long Trump trades will last. With expectations for BOJ rate hikes steadily growing too, the dollar/yen pair will probably trade with a heavy topside.
Nishi	Bear	153.00 – 147.00	The focus this month will fall on the BOJ meeting. With inflation above 2% and consumer spending moving firmly, expectations for a BOJ rate hike will grow steadily providing there are is no turmoil, with the dollar/yen pair's topside likely to be heavy. However, after taking a breather, Trump trades might start again, so caution will be needed.
Harada	Bull	155.00 – 148.00	Attention should be paid to US and Japanese monetary policy. The markets are pricing in a FOMC rate cut and a BOJ rate hike, though the timing of these moves remains hard to gauge. Even if the two central banks move as expected, the dollar/yen pair's downside will be capped by concerns about the policies of the Trump administration.
Minamino	Bear	154.00 – 147.00	Bets on a FOMC rate cut in December have risen to around 60%. If economic indicators perform in line with market forecasts, expectations for a rate cut will grow on a sense that the economy is on track. However, a BOJ rate hike is also a possibility, so investors will be focusing on shrinking Japanese/US interest-rate differentials this month.
Matsuki	Bear	153.00 – 145.00	A lot depends on the results of US economic indicators, but if the FOMC postpones a rate cut and the dot chart is upgraded, the dollar/yen pair will probably rise in the short term. However, investors will probably buy the yen on caution ahead of the December BOJ meeting, the last major event of this year.

Tetsuen Han, Forex Sales, Global Markets Sales & Trading Department

Euro – December 2024

Expected Ranges **Against the US$: US$1.0250–1.0700**
Against the yen: JPY153.00–162.00

1. Review of the Previous Month

In November, the euro fell and the dollar rose, with the euro/dollar pair hitting its lowest level since 2022.

The pair opened the month trading at $1.0884 and then moved in a range around the upper-$1.08 mark. In the following week, the pair climbed to the lower-$1.09 level on November 5 on rising German interest rates before hitting a monthly high of $1.0937 for a time on November 6. However, it then plummeted to $1.0683 as US stocks and interest rates rose sharply as early election results emerged. The pair subsequently recovered to $1.07 as US interest rates began sliding. The eurozone released some bullish September retail sales data on November 7. With US interest rates also falling, the currency pair hit $1.08. The greenback remained bearish on November 8 as US interest rates kept sliding. The pair opened the following week trading at $1.0713 on November 11, though it then edged down to the lower-$1.06 range amid dollar buying. On November 12, US interest rates rose and Germany released a bearish ZEW Indicator of Economic Sentiment for November, so the pair temporarily fell below $1.06. The pair climbed to the mid-$1.06 mark directly after the release of the US October CPI data on November 13, though it then fell to the mid-$1.05 level as US interest rates rallied. Investors continued to buy the dollar on November 14. With German interest rates also sliding on the sluggish results of the eurozone September industrial production data, the pair slumped to $1.0496. The pair then moved in a range around $1.05 as US interest rates declined. The dollar was bought and the euro sold on November 15 as US interest rates rose on the robust results of several US economic indicators.

The currency pair began the latter half of the month trading at $1.0536. With US interest rates sliding, the pair edged up to around $1.06. On November 19, the greenback was bought on risk aversion related to growing tensions in Ukraine. With German interest rates also sliding, the pair weakened to the lower-$1.05 mark. Concerns about intensified fighting then waned, so the pair bounced back to the upper-$1.05 level. The pair temporarily hit $1.0610 on November 20, though it then fell to the lower-$1.05 mark on the weak result of Germany's October Producer Price Index. The pair then plunged to $1.0462 on November 21 on rising US interest rates. The euro was then sold on November 22 on concerns about a recession after a eurozone November PMI dropped below 50, with the currency pair temporarily falling to a monthly low of $1.0332. The pair opened the final week trading at $1.0480 on November 25. With US interest rates sliding, the pair hit $1.05 for a time, but the dollar was then bought back, so the pair closed below $1.05. The pair temporarily fell to the lower-$1.04 level on November 26 on concerns about Donald Trump's plans to introduce new tariffs. Thereafter, the pair was swayed by US interest rates while moving in a range around $1.05. On November 27, German interest rates rose on hawkish comments by ECB board member Isabel Schnabel. With US interest rates also falling, the currency pair climbed to the upper-$1.05 level. Amid thin trading due to a US holiday on November 28, the pair floated in a range around the mid-$1.05 level. On November 29, trading time was shortened following the previous day's holiday, with the pair trading with a lack of direction.

2. Outlook for This Month

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

As for monetary policy, the ECB implemented a 25bp rate cut when its Governing Council last met in October. On October 31, ECB president Christine Lagarde said any decisions about the scale or timing or rate cuts would depend on data released over the next few weeks or months, so as with the FRB and BOJ, it seems the ECB will make monetary policy judgements based on the strengths or weaknesses of the data going forward. At present, it seems likely the Governing Council will cut rates by 25bp when it meets in December. The eurozone’s composite PMI for November (released November 22) was below 50, the line demarcating expansion from contraction. There are concerns about an economic slowdown in the eurozone, particularly in Germany and France, the two principal drivers of the European economy, so some market participants are even pricing in a 50bp rate cut.

On the other hand, opinions are divided about whether the FOMC will keep policy fixed or implement a 25bp rate cut when it meets in December. On November 14, FRB chair Jerome Powell reiterated his cautious stance towards rate cuts when he said, “the economy is not sending any signals that we need to be in a hurry to lower rates. The strength we are currently seeing in the economy gives us the ability to approach our decisions carefully.” The US and Europe remain in an accommodative phase, but the fundamentals suggest Europe will ease at a faster pace given its weakness compared to the US. The euro is also expected to move bearishly against the dollar on this monetary policy divergence.

The euro will also be susceptible to selling on the political and geopolitical front. Firstly, Donald Trump is looking into lifting tariffs on trading partners when he becomes president again. This will directly impact Europe, but Europe also has strong economic links with China, so Europe will also be affected if the US raises tariffs on Chinese goods. If it seems these policies will come to pass, this will place downward pressure on Europe’s real economy, with the euro likely to be sold as a result.

There is also lingering uncertainty about the political situation in Germany and France. In Germany, Olaf Scholz’s coalition government collapsed on November 6. Scholz’s Social Democrats and the Green Party have called for large-scale fiscal mobilization, but the Free Democrat party is espousing strict fiscal discipline, with the two sides at loggerheads. Scholz now leads a minority government, so he will face difficulties enacting policy. Investors should also pay attention to geopolitical risk related to growing tensions between Russia and Ukraine as well as the ceasefire between Isreal and Hezbollah. If the situation deteriorates, this will probably lead to risk aversion, with European stocks falling, German interest rates sliding, and European currencies being sold.

Dealers' Market Forecast

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

Bullish on the euro	2 bulls	1.0775 – 1.0350	Bearish on the euro	15 bears	1.0700 – 1.0300

* Ranges are central values

Miyachi	Bear	1.0700 – 1.0100	Investors should be wary of the anomaly whereby the dollar weakens towards the year's end, but the euro will be a hard currency to buy given the weakness of the German economy, the Ukraine situation, and German political uncertainty, for example. It seems the euro will also be sold on news about the new policies of the upcoming Trump administration.
Kawai	Bull	1.0800 – 1.0350	There remain a number of euro-selling factors, including Europe's deteriorating economy, geopolitical risk, political instability in Germany and France, and the gap in expectations for US and European rate cuts. However, the euro has weakened sharply since October, so the euro/dollar pair will probably float around $1.05 this month.
Kawabata	Bear	1.0700 – 1.0200	It seems fears about France's finances will be kept at a local level, though concerns about the Trump administration's tariffs against Europe will prove a negative factor for the eurozone economy in the medium term. Opinions are divided among authority figures regarding the neutral rate, with the euro likely to remain susceptible to speculative selling toward the December ECB Governing Council meeting.
Kato	Bear	1.0700 – 1.0400	There remains a sharp divergence between European and US fundamentals. As such, even if the euro/dollar pair enters a phase of adjustment, it will still trade with a heavy topside given this clear difference in the performance of the two economies.
Yamazaki	Bear	1.0650 – 1.0350	The euro/dollar pair looks set to fall. The euro will continue to be sold as the eurozone faces geopolitical and political risk. The pair has already fallen since November, so its room on the downside will be capped.
Yamaguchi	Bear	1.0700 – 1.0300	The eurozone's economy remains in the doldrums. With inflation also slowing, it seems the ECB will continue to cut rates. With political risk continuing to smolder, the euro is likely to remain bearish this month.
Tagawa	Bear	1.0750 – 1.0200	There are several negative factors, including the weakness of the eurozone economy, Trump tariffs, and German political uncertainty. Some investors are predicting a -50bp rate cut at the next ECB meeting, with a clear contrast forming between European and US monetary policy. Though the euro has already fallen sharply, it does not appear to have bottomed out yet.
Matsunaga	Bear	1.0600 – 1.0200	Europe faces several bearish factors, including geopolitical risk, political risk, and the risk of an economic recession, so the euro/dollar pair will move with a heavy topside. If it breaks through the key $1.04 mark once more, selling could accelerate.
Katoono	Bear	1.0680 – 1.0300	The eurozone faces political instability, particularly in Germany and France. With the economy also slowing and disinflation taking root, the ECB will move steadily to lower rates, with the euro/dollar pair likely to continue moving heavily as a result.
Okuma	Bear	1.0700 – 1.0300	It seems likely that European inflation will cool off soon given the economic instability there. The ECB is supporting a gentle pace of rate cuts, with some observers even expecting a large rate cut when the ECB meets in December, so investors will probably test the euro/dollar pair's downside this month.
Ito (Motoi)	Bear	1.0750 – 1.0100	Uncertainty about the economic and political situation is surging and there are no reasons to actively buy the euro. Under these circumstances, the ECB may will cut rates at a faster pace, so the day may arrive soon when the euro drops below parity against the dollar.

Han	Bear	1.0700 – 1.0250	While Europe faces concerns about an economic slowdown, there are growing expectations that the US will achieve a soft landing on firm consumer spending, with the euro likely to move bearishly against the dollar as a result.
Suzuki	Bear	1.0700 – 1.0400	The European economy is notably slowing, particularly when it comes to German manufacturing. With inflation also slowing steadily, the environment is ripe for rate cuts. On the other hand, the easing outlook remains uncertain in the US, so the euro/dollar pair looks set to move bearishly on this clear monetary policy divergence.
Nishi	Bear	1.0700 – 1.0300	The ECB will lower rates when it meets in December. The eurozone economy remains weak, but economic sentiments could deteriorate further on Trump tariffs. With the economy also weighed down by German political uncertainty, the euro/dollar pair will trade with a heavy topside on the different situations in the US and Europe.
Harada	Bear	1.0700 – 1.0300	There are growing concerns about the situation in Europe, particularly given the deteriorating Russia/Ukraine situation and German political instability. Things are up in the air when it comes to FOMC rate cuts, but investors are pricing in ECB rate cuts, so the euro will remain conducive to selling.
Minamino	Bull	1.0750 – 1.0350	The euro/dollar pair has moved bearishly on the strong dollar and weak euro, though this trend may have gone too far. Investors will buy the euro on the dip, with the currency pair set to move firmly. ECB rate cuts seem nailed on, so if the FOMC also lowers rates, this will act to push the pair upwards.
Matsuki	Bear	1.0800 – 1.0300	The trend of dollar buying on Trump trades will ease, but any euro/dollar pair rally will be capped by bearish factors that look set to continue for the remainder of the year, such as geopolitical risk related to Russia and Ukraine, political uncertainty related to Germany and so on, and the weakness of eurozone economic sentiments.

Motoki Amanuma, Europe Treasury Department

British Pound – December 2024

Expected Ranges **Against the US$: US$1.2300–1.2900**
Against the yen: JPY184.00–196.00

1. Review of the Previous Month

The GBP/USD pair fell in November. The dollar strengthened across the board after news of Donald Trump's victory emerged during the early morning of November 6, London trading time. As expected, the BOE voted 8 to 1 for a -25bps rate cut when it met on November 7. Some observers suggested the UK government's new budget could lead to inflation. With the outlook also being revised upwards, expectations for a December rate cut faded in futures markets. As expected, the FOMC also implemented a -25bp rate cut. The UK October CPI data was released on November 20. With the headline, core and services figures all up on market forecasts, expectations for a UK rate cut receded. The pound moved firmly during this global phase of dollar bullishness, with sterling also rising sharply against the euro. Though the services figure was above market expectations, it was in line with BOE forecasts. The recreation heading had been a driver of inflation, but this now fell compared to the previous month. However, this was offset by the rising cost of food, drinks and education.

The preliminary UK November PMIs were released on November 22, with the manufacturing, services and composite PMIs all below market forecasts. This marked a contrast with the CPI data. Sterling had already fallen on geopolitical risk evasion, with its downside tested even further now. A glance at the swap markets revealed that bets on rate cuts had returned to the level that prevailed before the CPI announcement. With the US on Thanksgiving holiday towards the month's end, the dollar weakened on position unwinding.

2. Outlook for This Month

In December, the GBP/USD pair may jostle up and down on the results of economic indicators released in the run up to the US and UK policy rate announcements. There seems to be particular uncertainty in the swap markets when it comes to expectations for rate cuts. Noteworthy US indicators include the November Manufacturing and Non-Manufacturing ISM Reports on Business (December 2 and 4), the November employment data (December 6) and the November CPI data (December 11). The US has posted a lot of firm data recently. There is an anomaly whereby the dollar is sold in December in most years, but the greenback strengthened when Donald Trump last won in 2016.

Noteworthy UK indicators include the preliminary December PMI data (December 16) and the November CPI data (December 18). When the UK October CPI data was released last month, it showed a slowdown in recreation, a major heading. With wages, holidays and education prices moving firmly, though, the data sprang an upside surprise to rise above market forecasts. However, the services data was in line with BOE forecasts. Statements by BOE members seem to be growing more wary and less dovish. The BOE seems to be moving cautiously, as revealed in the last policy announcement when the inflation outlook was revised upward in relation to the new UK budget. Inflation is currently moving in line with expectations, but there is a risk that the budget could push inflation higher, so it seems the BOE will need to think long and hard about whether to cut rates. In this sense, rate cuts are likely to be pushed back to next year, provided no weak figures emerge. The outlook will also be data driven and there is no sign of the pound falling sharply at this moment in time. A downside risk for the pound could lie in the economic data. The UK’s November PMI figures and October retail sales data moved bearishly on the whole. If this trend continues, sterling could be sold as investors move to price in rate cuts in 2025.

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

Australian Dollar – December 2024

Expected Ranges **Against the US$: US$0.6340–0.6590**
Against the yen: JPY98.00–101.50

1. Review of the Previous Month

In November, the AUD/USD pair rose from the upper-$0.66 level before then falling to the mid-$0.64 range.

In the first week, the greenback was sold on November 4 after an opinion poll at the weekend had suggested Kamala Harris would win the presidential election, so the currency pair climbed to $0.66. On November 6, early results suggested Trump had won, so the US dollar was bought across the board and the pair temporarily plunged to the lower-$0.65 level. After a round of selling, the pair was gradually bought back and it returned to the upper-$0.65 mark. November 7 saw an adjustment to the previous day's sharp dollar buying, with the currency pair climbing to a monthly high of $0.6687. As expected, the FOMC them implemented a -25bp rate cut. Its statement and FRB chair Jerome Powell's conference contained no particular surprises, so the impact was muted. Amid a dearth of factors on November 8, the pair plunged to the mid-$0.65 level on rising US interest rates.

In the second week, the pair slid to the mid-$0.64 mark as its topside was tested on ongoing Trump trades. Australia's Q3 wages data was released on November 13, with the y-o-y and q-o-q figures both slightly down on forecasts. Australia's October employment data was then released on November 14, with jobs growth down on forecasts. With FRB chair Jerome Powell also voicing caution about rate cuts, the AUD/USD pair moved heavily.

US interest rates fell at the start of the third week on apparent moves to lock in the profits gained from Trump trades, so the currency pair climbed to $0.65. The RBA then released some hawkish minutes on November 19, with the pair also supported on November 20 by the settlement results of a US semiconductor giant. However, investors did not test the pair's topside further, with the pair then floating around the mid-$0.65 level.

At the fourth weekend, Donald Trump nominated Scott Bessent as his treasury secretary, so the greenback weakened and the Australian dollar was bought when the next week opened on November 25. The pair rose to around its $0.6550 resistance level, but it then dropped back to fall to around $0.65. On November 26, the AUD/USD pair fell to the lower-$0.64 range on comments that the upcoming Trump administration would slap new tariffs on China, Canada and Mexico, though the pair was soon bought back to swing to and fro. It then hovered around $0.65.

2. Outlook for This Month

The AUD/USD pair is expected to move firmly in December. The pair was swayed by speculation about the US presidential election early November, but expectations for rate cuts waned sharply when Donald Trump won, with investors testing the currency pair's downside. When Trump nominated Scott Bessent for the closely-watched treasury secretary position, this led to the unwinding of some Trump trades, though the AUD/USD pair then fell to its lowest level since August when details of the upcoming Trump administration's tariff plans were revealed the following day (an additional 10% tariff on China and a 25% tariff on Canada and Mexico). China is Australia's largest trading partner, so if the Trump administration slaps new tariffs on China, this will be a very concerning matter for Australia too, with the markets set to be swayed by Trump's comments from here on too. As all eyes focus on the policies likely to be pursued by the incoming Trump administration, US interest rates and the greenback have risen. However, Australia is struggling to bring core inflation down, so the environment will not be conducive to RBA rate cuts until at least mid-2025. Given this, with stock prices rallying towards the year's end, the AUD/USD pair looks set to move firmly. The pair will also be supported by declining geopolitical risk on the Israel/Hezbollah ceasefire.

Mitali Chakradeo, Canada Treasury Office, Americas Treasury Department

Canadian Dollar – December 2024

Expected Ranges **Against the US$: C$1.3800–1.4200**
Against the yen: JPY105.00–113.00

1. Review of the Previous Month

In November, the USD/CAD pair's movements were shaped in large part by the US presidential election. After Donald Trump's victory, the currency pair topped C$1.40 for the first time since May 2020.

The minutes to the October Bank of Canada (BOC) meeting were released early November, with the BOC predicting that inflationary pressures would continue to fall. As expected, the FOMC lowered the ceiling of its policy rate by 25bps to 4.75% when it met in November. The October S&P Global Manufacturing PMI was released on November 1. At 51.1, Canada's data was above the key 50 mark. At 48.5, though, the US figure was below 50 for the second straight month. The October US employment data was released on the same day. The nonfarm payrolls figure was down on the precious month, while the unemployment rate remained unchanged. Canada's October employment figure was released on November 8 and this was also down sharply on the previous month and on expectations, though the unemployment rate remained unchanged on September at 6.5%. However, neither of these announcements had any significant impact on the USD/CAD pair's movements.

The US October CPI data was released on November 13, with the m-o-m headline and core figures both unchanged on the previous month. The headline figure was up on a y-o-y basis, but the core figure was unchanged on September, with all these figures in line with expectations. The greenback was bought after the announcement, with expectations also growing for a further rate cut at the December FOMC meeting. Canada's October CPI data was then released on November 19. The headline and core figures were up on both a m-o-m and y-o-y basis, with both topping forecasts too. The likelihood of a large rate cut at the December BOC meeting waned slightly as a result, with the USD/CAD subsequently sliding.

The pair temporarily climbed to C$1.41 towards the month's end as Donald Trump announced he would Canada and Mexico with a new 25% tariff and China a new 10% tariff in order to combat illegal immigration and drug smuggling. The markets adjudged that such a move would lead to faster inflation in the US and less likelihood of rate cuts. With the release of Canada's 3Q GDP data looming on November 29, the pair was moving in the C$1.40 range as of November 27.

2. Outlook for This Month

The Bank of Canada (BOC) will be meeting to set policy on December 11. In a speech on Prince Edward Island on November 26, BOC deputy governor Rhys Mendes said inflation had returned to 2%, its target for the past few years, adding that this would "allow Canadian consumers and businesses to spend and invest with confidence and the economy" after some tough years. As of November 27, market opinions were divided, with some expecting a 25bps rate cut and others a 50bps cut. Canada's October CPI data was up slightly on the previous month, so the opinion that the BOC will only implement a 25bps cut (from 3.75% to 3.50%) is prevailing slightly in interest-rate markets. Several major indicators will be released before the BOC's meeting, including the September GDP data and the November employment data.

The FOMC will be meeting on December 18 and most observers believe it will lower the ceiling of its policy rate from 4.75% to 4.50%, though some economists are predicting the FOMC will keep rates fixed. The minutes to the November 7 FOMC meeting suggest the FOMC is strongly committed to supporting full employment and ensuring inflation returns to the 2% target. Several major US indicators will be released before December 18, including the November employment data, CPI data and retail sales figure, so market participants should continue to monitor the impact of these indicators on the FOMC's economic outlook. Furthermore, if Donald Trump does slap new tariffs on goods from Canada, Mexico and China, this will lead to faster inflation in the US, with the likelihood of 2025 rate cuts likely to decrease as a result.

When gauging the USD/CAD pair's outlook for December, investors will focus on US and Canadian economic indicators and any policies announced by Donald Trump. Attention will also focus on how these things will impact the outlook for inflation and rate cuts in the two countries.

The markets will be monitoring C$1.3800 as the pair's low point while also watching to see whether it breaks above C$1.4170, its high for the past five years or so.

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

Korean Won – December 2024

Expected Ranges **Against the US$: KRW 1,370–1,420**
Against the yen: JPY 10.59–11.29 (KRW100)

1. Review of the Previous Month

The USD/KRW pair rose in November.

After opening the month trading at KRW1,375.5, the pair climbed to around KRW1,380 as the dollar was bought on major events like the release of the US employment data, the US presidential election and the FOMC meeting. Investors had made Trump trades in anticipation of a Trump victory, but these were unwound toward the weekend on news that Kamala Harris was in the lead, with the currency pair moving bearishly for a time. However, as the results came in early on November 6, they suggested that Trump had scored a victory, so US interest rates rose again and the greenback was bought. When Trump's victory was confirmed on November 7, the pair temporarily surged to KRW1,404.5. As expected, the FOMC implemented a 25bp rate cut when it met on the same day. With these events out of the way, the pair returned to KRW1,380 on November 8.

However, the won began moving bearishly again the following week, with the pair opening around KRW1,395 on November 11. The RMB moved weakly on a Chinese economic slowdown and expectations that the Trump victory would mean higher tariffs on Chinese goods, with the won also pulled lower. The currency pair topped the key KRW1,400 mark again on November 12 and it temporarily hit a high of KRW1,410.8 on November 13. On November 14, South Korea's Deputy Prime Minister Choi Sang-mok intervened verbally when he said the authorities would act proactively in a swift and timely manner to stabilize the markets if volatility became too excessive in the financial markets, with the USD/KRW pair subsequently returning to around KRW1,400 toward November 15.

As Trump trades eased off the following week, the pair floated with a lack of direction in the KRW1,390 range. The greenback was bought on risk aversion midweek as geopolitical risk grew in relation to Russia and Ukraine. With an FRB official also voicing caution about rate cuts, the currency pair topped the key KRW1,400 mark again toward November 21. However, the pair moved with a heavy topside around KRW1,400 on concerns of an intervention by the authorities.

The next week saw the won weakening on November 26 as Donald Trump talked about hitting China with tariffs, so the pair climbed to around KRW1,407 for a time, though it dropped back to the lower-KRW1,390 level on November 27. The won moved slightly bearishly after the BOK meeting on November 28 decided a 25bp rate cut. The pair was moving at KRW1,395.6 as of 15:30 on November 28.

2. Outlook for This Month

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

At the BOK meeting on November 28, contrary to most expectations, the decision was made to cut rates. It also downgraded its growth rate forecast (y-o-y) for 2024 and 2025 by -0.2% apiece, with the forecast lowered to +2.2%

in 2024 and +1.9% in 2025. It also lowered its 2025 CPI forecast by -0.2% to +1.9%. After the previous month’s decision to implement a -0.25% rate cut, BOK governor Rhee Chang-yong had indicated that the BOK was in no rush to ease and he pointed out that five of the BOK board’s six members believed the policy rate should be kept at 3.25% over the next three months. However, when South Korea’s 3Q GDP data was released the following month, it revealed that growth had slowed, with dark clouds also appearing when it came to exports (which had previously compensated for the weakness of the domestic economy). Another factor behind the BOK’s surprise rate cut was growing uncertainty about tariff hikes after Donald Trump won the US presidential election. The USD/KRW pair has topped KRW1,400 at times. The BOK is also paying attention to household debt, which is now falling at a gentle pace after previously having being been pushed up by seasonal factors. There are signs that house prices are rising again in Seoul and its surrounding areas.

Though one FOMC meeting remains in December, it nonetheless seems the won will continue to face downward pressure this month as South Korean/US interest-rate differentials expand on the recent BOK rate cut and the downgrade to its economic outlook for 2025. The USD/KRW pair will move with a heavy topside above KRW1,400 on growing concerns of a verbal intervention by the authorities or interventions by market participants, but the greenback is likely to remain firm in the run up to Donald Trump’s inauguration, so the pair will probably move between the upper-KRW1,300 level and the lower-KRW1,400 mark.

Chen-Long Yang, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – December 2024

Expected Ranges **Against the US$: NT$32.00–33.00**
Against the yen: JPY4.35–4.90

1. Review of the Previous Month

The USD/TWD pair rose in November.

The pair opened at TWD31.950 on November 1. The October US nonfarm payrolls figure was down sharply on expectations, with only +12,000 new jobs added. The figures for August and September were also revised down by a total of 120,000, with the figure for August undergoing a particularly steep downgrade. The greenback was subsequently sold in overseas markets. The Taiwan dollar was bought amid this trend, with the currency pair temporarily breaching TWD31.90. However, US interest rates and the US dollar then rose in global financial markets on news that Donald Trump would win the US presidential election, so the pair returned to around TWD32.20.

The FOMC implemented a 25bp rate cut when it met mid-November. As expected, the pace of easing was slowed from September's 50bp rate cut, though there were few changes in the accompanying statement. After confirming the FRB's stance, market participants continued to monitor the potential fiscal and tax policies of the upcoming Trump administration. There were concerns about the hardline stance against China and of US interest rates remaining high as inflationary pressures grew, so the greenback continued to move firmly against Asian currencies, with the USD/TWD pair temporarily hitting TWD32.60.

In late November, Donald Trump nominated the hedge fund founder Scott Bessent as his treasury secretary. This raised the possibility that the new administration would prioritize fiscal discipline, so US long-term interest rates fell and the US dollar faced less upwards pressure in the currency markets, with the Taiwan dollar's downside also supported against the greenback. As Taiwanese exporters sold foreign currencies at the month's end, the pair traded in a range between TWD32.40–32.60.

2. Outlook for This Month

The USD/TWD pair looks set to trade in a range in December.

Risk sentiments improved in November on the prospect of a new Trump administration, so even more funds flooded into dollar assets. As the greenback strengthened, the currency pair temporarily hit TWD32.620.

The pair is likely to move firmly in December with an eye on US interest rate trends and the movements of the RMB and other Asian currencies. Donald Trump has announced he will slap an extra 10% on all imports from China in order to stop inflows of drugs and other illegal pharmaceuticals. If trade frictions escalate further going forward, the RMB will weaken and Asian currencies will move bearishly. Furthermore, the US economy is moving firmly on the whole, with the US dollar likely to be bought on high US interest rates. On the other hand, Taiwanese exports are growing at a slightly slower pace, but exporters will still be queuing up to sell foreign currencies at the year's end. This will support the Taiwan dollar's downside, with the USD/TWD pair set to trade in a range.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – December 2024

Expected Ranges **Against the US$: HK$ 7.7600–7.7950**
Against the yen: JPY 19.10–20.30

1. Review of the Previous Month

Hong Kong dollar spot exchange market in November

HKD sentiment soured after Trump's victory. The return of RMB depreciation pressure and rising China-US tensions pushed HKD spot back to near 7.78 level. Hong Kong equities dropped due to concerns about the new trade war. Considering mounting uncertainties over US policies and waning China stimulus optimism, foreign investors scaled back their investments from HK markets, returning to underweight in HK equities. Meanwhile, onshore China investors were keen to add more exposure on HK shares, with southbound Stock Connect flow increasing further towards HKD 700bn.

On the bright side, IPO market sentiment continued to improve, with more companies launching their listing projects since October. In the midst of recovery in HK equities, Hong Kong IPOs have raised more than USD 9bn so far this year, significantly exceeding the amount of USD 5.9bn in whole 2023. Some IPOs received heavy oversubscription but resumed to normal range lately aid cooling stock markets. In light of IPO tightening in A-shares markets, Chinese companies were the active player in HK IPO market, with a Chinese express delivery company seeking up to USD 797mn via the IPO listing.

On the data side, HK Q3 GDP growth reading was confirmed at 1.8%YoY as expected, while the breakdown showed the trend of weak domestic consumption, with the private consumption expenditure contracting for second consecutive quarter. Considering mounting uncertainties over the global economy and trade conflicts, the HK government revised annual GDP forecast to 2.5% form a 2.5%-3.5% range. Headline CPI inflation for October fell back to 1.4%YoY from prior 2.2%YoY, mainly due to the waning low base effect arising from the rate recession and extra public rental waiver.

Hong Kong dollar interest rate market in November

HKD rates were settling down after the fluctuations in September and October. It appears that Fed's slowing rate cut pace and easing HKD liquidity conditions contributed to a more balanced HKD rates. As HK equities lost upside momentum, the daily turnover of Hang Seng Index eased back to around HKD 150bn from a peak of HKD 620bn on 8 October. This offered a relief to settlement demand in the stock markets when the HK aggregate balance has been running low near HKD 45bn. Against this backdrop, HK banks continued to acquire liquidity via the discount window operations but liquidity injection size dropped.

HK banks followed suit to cut the prime rate by 25bps after Fed's 25bps rate cut in November. The follow suit rate cut was a slightly surprising, given the record of HK slow prime rate hike cycle since mid-2022. Such rate decision suggested that HK banks' motivation to stabilize property market and lending out excessive liquidity given the subdued loan-to-deposit ratio. By supporting the local property market, HK banks could mitigate credit impaired losses in their commercial real estate (CRE) loans to HK clients. Despite the narrowing spread between prime rate and HIBOR funding costs, a stabilizing property market could benefit banks' credit portfolios.

HK government announced to launch a retail infrastructure bond with a target size of HKD 20bn at a minimum coupon of 3.5% or link to inflation. The government can increase the issuance size up to maximum of HKD 25bn. With less than half size of Silver Bond issuances (HKD 55bn) and lower guarantee yield of 4%, the subscription responses are expected to less hot and its impact on liquidity should prove to be relatively limited.

2. Outlook for This Month

Hong Kong dollar spot exchange market in December

Although the HK stock market retracement and hawkish Fed put a pause on the HKD appreciation, the HKD spot is expected to stay in the strong-half of its trading band amid Fed's easing cycle. In addition, the Hang Seng Index could regain momentum when the Chinese government re-accelerated the delivery of stimulus package to counter the external shocks. Improving HK business sentiment and stabilizing property markets should support corporate and mortgage loan demand, thereby narrowing USD-HKD rate spread in the medium term.

Hong Kong dollar interest rate market in December

HK rates are subjected to upside at year-end, considering the year-end seasonality and Fed's slowing rate cut pace. The pick-up in IPO projects and the potential rebound in HK equities should also pose upward pressure on the HKD rates. If the HK banks' total 50bps prime rate cut materialized to stabilize property market, the return of mortgage loan demand should help reduce the USD-HKD rate divergence. However, the softening momentum in HK equities are set to bring backward the timing of HKD hitting 7.75, the absence of HKD liquidity injection will keep aggregate balance low for a while.

Sae Sueyoshi, Treasury Department, MHBK (China)

Chinese Yuan – December 2024

Expected Ranges	**Against the US$: CNY 7.1300–7.3500**
	Against the yen: JPY 20.00–21.73

1. Review of the Previous Month

In November, the U.S. dollar/Chinese yuan exchange rate rose as a result of the presidential election in the U.S.

On November 1, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 7.11 level. On the same day, the exchange rate rose temporarily to the CNY 7.13 level. However, market participants generally maintained a wait & see attitude, as the presidential election was approaching in the U.S.

On November 4, the U.S. dollar/Chinese yuan exchange market opened at the lower-CNY 7.10 level. Toward November 5, there were few transactions, as market participants were waiting for result of the U.S. presidential election. On November 6, votes were being counted after the election, and the media reported that it was likely for Donald Trump to win, which strengthen the U.S. dollar. As a consequence, the U.S. dollar/Chinese yuan exchange rate rose to approach the CNY 7.18 level during overnight trading hours. On November 7, market participants adjusted their positions slightly, and the U.S. dollar/Chinese yuan exchange rate fell to the CNY 7.13 level. However, on November 8, the U.S. dollar/Chinese yuan exchange rate rose to the CNY 7.18 level once again, at which level weekly trading closed.

On November 11, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 7.17 level. In the first half of the week, market participants continued buying the U.S. dollar and selling the Chinese yuan, and this led the U.S. dollar/Chinese yuan exchange rate to exceed the CNY 7.20 level. On November 12, the exchange rate rose to temporarily reach the CNY 7.24 level. It also became certain for Donald Trump to win the U.S. presidential election, while many market participants expected the Republican Party to secure a majority in both the House of Representatives and the Senate. As a result, so-called "Trump trades" resumed, and interest rates in the U.S. rose, strengthening the U.S. dollar in the overall foreign exchange market. Furthermore, there were growing concerns over the economic outlook in China as well as over the attitude of the next Trump administration toward China. Under such circumstances, the U.S. dollar/Chinese yuan exchange rate rose to the upper-CNY 7.24 level on November 14 for the first time since the beginning of August this year. However, in the second half of the week, the People's Bank of China (PBOC) set its central parity rate at the CNY 7.19 level, which kept the U.S. dollar/Chinese yuan rate from rising further. In the end, weekly trading closed at the upper-CNY 7.22 level on November 15.

On November 18, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 7.23 level. While there were no new factors to influence the market, the U.S. dollar/Chinese yuan exchange rate fluctuated in accordance with transactions in the market. Then, on November 20, the LPR in China was announced, and the rate was maintained at the existing level, as had been anticipated in the market. Thus, there was little reaction to this news in the market. Thereafter, the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a narrow range mainly at the CNY 7.24 level without moving in any direction, with a weekly fluctuation range of only around 200 pips.

On November 25, the U.S. dollar/Chinese yuan exchange market opened at around the CNY 7.24 level. While the PBOC set its central parity rate at the CNY 7.19 level, the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a narrow range throughout the day. In the morning of November 26, the next President of the U.S., Donald Trump, posted on social media that he had a plan to impose tariffs of 10% on China and 25% on Mexico and Canada. In reaction, the U.S. dollar/Chinese yuan exchange rate rose to the upper-CNY 7.25 level. On November 27, the U.S. dollar/Chinese yuan exchange market closed trading at CNY 7.2470.

2. Outlook for This Month

The U.S. dollar/Chinese yuan exchange rate is forecast to remain stable from a short-term perspective, while market participants should bear in mind the risk for the U.S. dollar/Chinese yuan exchange rate to fluctuate in both directions.

Because of so-called "Trump trades" based on the outcome of the presidential election in the U.S., the U.S. dollar/Chinese yuan exchange rate, which had been fluctuating at the CNY 7.10 level before the election, rose significantly to the CNY 7.25 level. Before the inauguration of the new president on January 20, there are many sources of concern regarding the relationship between the U.S. and China, as was seen on November 26. Thus, the U.S. dollar/Chinese yuan exchange rate is most likely to continue rising gradually in the times ahead.

On the other hand, a Federal Open Market Committee (FOMC) meeting in the U.S. is scheduled for December 17 and 18, and it is important to see whether the policy interest rate will be cut. As of November 27, the market has reflected approximately 0.6 policy interest rate cuts by the end of December 2024, with approximately three policy interest rate cuts before the end of 2025. Market participants should bear in mind that it would be more likely for the FOMC to cut its policy interest rate in December if the employment statistics and CPI turn out to be weaker than the market estimates prior to the FOMC meeting, and this may weaken the U.S. dollar. It is also important to see whether the dot plot of the FOMC will be revised at the next meeting based on the outcome of the presidential election.

With regard to the situation in China, there are growing concerns for China to introduce retaliatory tariffs on the U.S. However, the Chinese monetary authorities may control the impact of the increased tariffs by supporting domestic consumption through fiscal expansion, instead of accepting the sharp depreciation of the currency, as was seen in 2017 to 2019. In either case, downward pressure on the Chinese yuan is likely to strengthen, but it will not be a rapid depreciation of the Chinese yuan. Furthermore, the PBOC has been setting its central parity rate at the CNY 7.19 level, and the upper end of the fluctuation range for the U.S. dollar/Chinese yuan exchange rate is considered to be the CNY 7.35 level with an increase of 2% from the central parity rate.

From a short-term perspective, the U.S. dollar/Chinese yuan exchange market is expected to be unstable due to the uncertain situations regarding the relationship between the U.S. and China. However, market participants are advised to keeping an eye on domestic announcements on economic stimulus measures. Every year, China holds its Central Economic Work Conference in December to make decisions on economic measures for the following year. If expectations grow for domestic economic recovery, it may strengthen the Chinese yuan. Thus, the outcome of this conference is worth observing.

Ayaka Matsumoto, Asia & Oceania Treasury Department

Singapore Dollar – December 2024

Expected Ranges **Against the US$: SG$ 1.3250–1.3600**
Against the yen: JPY 110.00–116.00

1. Review of the Previous Month

In November, the U.S. dollar/Singapore dollar appreciated.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange market opened trading at around the SGD 1.32 level on November 1. On the same day, the October employment statistics of the U.S. were released, and the number of non-agricultural employees turned out to be significantly below the market estimate, which temporarily led interest rates in the U.S. to fall. However, since the U.S. presidential election and a Federal Open Market Committee (FOMC) meeting were scheduled for the following week, this news impacted the foreign exchange market only to a limited degree. On November 5, the presidential election was held in the U.S., and votes were counted, as a result of which the media reported that Donald trump was likely to win the election. In reaction, interest rates in the U.S. rose significantly. On November 6, the following day, the overall Asian currencies weakened against the U.S. dollar, and following this trend, the U.S. dollar/Singapore dollar rose to the lower-SGD 1.33 level. In the end at the U.S. presidential election, the victory of Donald Trump became certain, and an FOMC meeting was held on November 6 and 7. As had been anticipated in the market, the policy interest rate was cut by 25 basis points, and Federal Reserve Board (FRB) Chair Jerome Powell did not make any surprising remarks at the press conference. Thus, the event did not impact the foreign exchange market significantly. The trend of U.S. dollar-buying after the re-election of Donald Trump at the presidential election also lost its momentum after a few days. Thus, toward November 8 (the weekend), the U.S. dollar/Singapore dollar exchange rate fell to the mid-SGD 1.32 level.

On November 12, the media reported that it became certain for the Republican Party to secure a majority at the Senate, which encouraged market participants to buy the U.S. dollar once again. As a result, the U.S. dollar/Singapore dollar exchange rate rose to temporarily approach the SGD 1.34 level. Thereafter, interest rates in the U.S. continued rising, and the U.S. dollar remained strong. On November 14, FRB Chair Jerome Powell made a remark to emphasize that there was no need to hurry in policy interest rate cuts, and this led the U.S. dollar/Singapore dollar exchange rate to rise further to the upper-SGD 1.34 level. Thereafter, there were no more new factors to impact the market, and the U.S. dollar/Singapore dollar exchange market did not move in any direction.

On November 22, the revised figure for the third-quarter GDP of Singapore was announced, and the result turned out to be +5.4% year-on-year, exceeding the preliminary figure. As a consequence, the U.S. dollar/Singapore dollar exchange rate once reached the lower-SGD 1.34 level. However, this trend did not last long, and the exchange rate exceeded the SGD 1.35 mark within the same day. Thereafter, the U.S. dollar/Singapore dollar exchange rate fluctuated slightly in reaction to headlines related to the plan to introduce foreign tariffs as revealed by Donald Trump, along with various remarks by FRB officials. However, the U.S. dollar/Singapore dollar exchange rate fell slowly to the lower-SGD 1.34 level, as the appreciation of the U.S. dollar based on the victory of Donald Trump had been adjusted slightly.

2. Outlook for This Month

In November, the U.S. dollar/Singapore dollar is expected to remain stable.

In November, there were important events such as the U.S. presidential election as well the FOMC meeting. As a result of the re-election of Donald Trump and the elimination of the speculation of a significant policy interest rate cut, the U.S. dollar/Singapore dollar exchange rate rose.

There is also an FOMC meeting scheduled for December as well. However, FRB officials recently made cautious remarks, and concerns are growing around accelerated inflation as a result of the raised foreign tariffs and immigration policy of Donald Trump. Under these circumstances, there are now certainly fewer market participants who are expecting policy interest rate cuts, leading to divided speculations by market participants regarding whether an additional rate cut will be decided at the FOMC meeting scheduled for December. Also, the October Consumer Price Index (CPI) of the U.S. turned out to be +2.6% year-on-year, accelerating from the previous month. The most-recent economic indices in the U.S. also turned out to be strong. Thus, market participants are expected to continue buying the U.S. dollar in the times ahead, motivated by fading expectations for significant policy interest rates cuts in the U.S. In order to assess whether or not the policy interest rate will be cut further, market participants are advised to observe economic data, including the U.S. employment statistics as well as the CPI. If these indices turn out to be strong, the U.S. dollar may strengthen further, for which market participants must remain cautious.

On the other hand, with regard to factors in Singapore, the October headline CPI of Singapore turned out to be +1.4% year-on-year, while the October core CPI turned out to be +2.1% year-on-year, both falling below the market estimate. In particular, the core CPI recorded its lowest level in approximately three years. Some economists see this as a reason for the MAS to consider measures of monetary easing. However, at the previous meeting held in October, the MAS maintained the existing monetary policy for the sixth consecutive time, emphasizing that it was at an appropriate level. The monetary authorities of Singapore have not released any information regarding any possible change on the monetary policy. Yet, market participants are advised to continue carefully observing the monetary policy to be announced at the next MAS meeting in January, as not only countries in Europe and the U.S. but also countries in Asia have started to introduce measures of monetary easing.

Chengyue Li, Bangkok Treasury Office, Asia & Oceania Treasury Department

Thai Baht – December 2024

Expected Ranges **Against the US$: THB 34.00–35.50**
Against the yen: JPY 4.35–4.50

1. Review of the Previous Month

In November, the U.S. dollar one-sidedly appreciated against the Thai baht at the beginning of the month based on the outcome of the U.S. presidential election, although this trend calmed toward the end of the month.

At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at the upper-THB 33 level. Thereafter, the October employment statistics of the U.S. were released with weak figures, while an opinion poll on the U.S. presidential election revealed no clear advantage for Donald Trump. In reaction, some market participants started selling the U.S. dollar prior to the election. However, immediately after the vote counting started for the U.S. presidential election on November 6, the media reported that Donald Trump was in a leading position, and the Republican Party was likely to secure a majority in both the House of Representatives and the Senate. Thus, market participants started to actively buy the U.S. dollar. Once it became certain for Donald Trump to win the election, the U.S. dollar/Thai baht exchange rate rose to the lower-THB 34 level. However, on November 7, indices related to employment in the U.S. were released with weak figures, leading the U.S. dollar/Thai baht exchange rate to fall below the THB 34 level. Thereafter, the Federal Open Market Committee (FOMC) meeting was held in the U.S., and the policy interest rate was cut by 25 basis points, as had been anticipated in the market. In addition, Federal Reserve Board (FRB) Chair Jerome Powell did not mention anything about an additional policy interest rate cut by the end of December. As a result, the U.S. dollar/Thai baht exchange rate returned to the lower-THB 34 level.

In the middle of the month, so-called "Trump trades" continued, and the U.S. dollar continued appreciating in a one-sided manner. On November 12, it became certain that the Republican Party would achieve a "Triple Red" scenario by gaining the presidential position as well as majorities in both the House of Representatives and the Senate. In reaction, the U.S. dollar/Thai baht exchange rate rose to the upper-THB 34 level. On November 13, the October Consumer Price Index (CPI) of the U.S. was announced, and the result turned out to be as anticipated in the market, which led the U.S. dollar/Thai baht exchange rate to fall temporarily. However, the trend of U.S. dollar appreciation did not change, and the U.S. dollar appreciated gradually again; meanwhile, the U.S. dollar/Thai baht exchange rate reached the THB 35 level. However, thereafter, the so-called "Trump trades" started to slow down, and the U.S. dollar started to depreciate slowly. On November 18, the third-quarter GDP of Thailand was announced with a result above the market estimate, as a result of which market participants temporarily sold the U.S. dollar in an accelerated manner. However, the U.S. dollar/Thai baht exchange rate fell only to a limited extent. Yet, on November 19 local time, the media reported a series of incidents related to the conflict between Russia and Ukraine, and this encouraged market participants to sell the U.S. dollar in order to avert risks. As a consequence, the U.S. dollar/Thai baht exchange rate fell to approach the mid-THB 34 level.

At the end of the month, there were few important economic indices announced, while geopolitical risks were growing. Furthermore, the Thanksgiving holidays in the U.S. were approaching. For these reasons, the U.S. dollar/Thai baht exchange rate did not rise further. On November 25, the media reported that the next president of the U.S., Donald Trump, would nominate Scott Bessent as the secretary of the U.S. Department of the Treasury. As a result, market participants expected inflation to be controlled in the times ahead, temporarily strengthening the Thai baht. However, the U.S. dollar/Thai baht exchange rate later returned to its original level thereafter. Toward the end of the month, the U.S. dollar/Thai baht exchange rate continued fluctuating at the upper-THB 34 level without moving in any direction. As of the time at which this article was being written, it was a Thanksgiving holiday in the U.S., and the U.S. dollar/Thai baht exchange rate was fluctuating at the mid-THB 34 level.

2. Outlook for This Month

In December, the U.S. dollar/Thai baht exchange rate is forecast to remain stable. However, toward the end of the year, market participants are advised to remain cautious about a sudden change in the market trend, caused by a fall in liquidity or the adjustment of positions from so-called "Trump trades."

While the U.S. economic indices generally remain strong, FRB Chair Jerome Powell has repeatedly emphasized that he was not in a hurry to cut the policy interest rate. At the meeting scheduled for December, the FOMC is expected to cut its policy interest rate by 25 basis points. However, the number of policy interest rate cuts in 2025 is likely to be smaller than originally expected, due to concerns over a resurgence of inflation caused by fiscal expansion under the Trump administration. On the other hand, while there are various problems related to the next Trump administration, market participants have already experienced the first Trump administration. Thus, given that the U.S. is in a phase of policy interest rate cuts, monetary policy under the next Trump administration may not have the same kind of impact on the foreign exchange market as it previously did. Since it will take time for the next monetary policy to be finalized, the current major risk factor is the situation in Russia and Ukraine. However, it is unlikely for market participants to rapidly sell the U.S. dollar, from a short-term perspective.

With regard to domestic factors in Thailand, the first phase of digital wallet distributions took place at the end of the third-quarter period. In addition, the central bank of Thailand cut its policy interest rate at the October meeting for the first time after the Covid-19 pandemic. Thus, it is likely to take time to confirm the supporting effect for domestic demand, such as household consumption. Furthermore, there will be more risks next year based on external factors such as the economic policy of the U.S. Thus, the central bank of Thailand is likely to maintain a cautious attitude. It is therefore unlikely for the central bank of Thailand to cut its policy interest rate for the second consecutive time at the MPC meeting in December.

For these reasons, the U.S. dollar/Thai baht exchange rate is forecast to remain stable in December. However, toward the end of the year, the liquidity level is expected to fall slowly. Furthermore, the U.S. dollar has appreciated in a one-sided manner for a while—the trend of which may end soon. Thus, market participants may carry out profit-taking actions on their positions obtained during so-called "Trump trades." Thus, market participants are advised to keep in mind that the market trend may change suddenly in reaction to the announcement of economic indices and monetary policy of the central bank as well as various news headlines.

Kazuhiro Suzuki, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – December 2024

Expected Ranges **Against the US$: MYR 4.30–4.57**
Against the yen: JPY 33.50–34.90

1. Review of the Previous Month

In November, the Malaysian ringgit depreciated against the U.S. dollar based on the outcome of the presidential election in the U.S.

In November, the U.S. dollar/Malaysian ringgit exchange market opened trading at the upper-MYR 4.36 level. Thereafter, the U.S. dollar/Malaysian ringgit exchange rate rose to the MYR 4.38 level, as market participants were cautious about the October employment statistics of the U.S., even though they were expected to be weak due to the impact of hurricanes. However, the number of employees turned out to record a significant year-on-year fall of 12,000, which encouraged market participants to sell the U.S. dollar after the weekend. On November 5, the U.S. dollar/Malaysian ringgit exchange rate fell to reach the MYR 4.34 level. However, on November 6, the probability for Donald Trump to win the presidential election in the U.S. increased as the vote counting advanced. Following this trend, the U.S. dollar appreciated, and the U.S. dollar/Malaysian ringgit exchange rate exceeded the MYR 4.40 mark. It is also worth noting that the central bank of Malaysia held a Monetary Policy Committee (MPC) meeting on the same day. However, since it was the same day as the presidential election in the U.S. and as the existing monetary policy was maintained, it did not impact the foreign exchange market. Before the November Federal Open Market Committee (FOMC) meeting was held, the U.S. dollar/Malaysian ringgit exchange rate reached the MYR 4.42 level. However, once the Federal Reserve Board (FRB) decided to cut its policy interest rate by 25 basis points, this trend slowed down for a moment. Yet, there were not enough factors to continue weakening the U.S. dollar, and the U.S. dollar/Malaysian ringgit exchange rate remained stable, fluctuating mainly at the MYR 4.38 level.

In the middle of the month, many currencies of emerging countries depreciated against the U.S. dollar due to concerns over the next Trump administration. After the U.S. holidays, some headlines were released concerning key personnel in the Trump administration, revealing that those loyal to Donald Trump are likely to take important positions in the forthcoming government. This fueled concerns that radical policy measures might be taken under the next government. Since long-term interest rates in the U.S. were also rising, the U.S. dollar/Malaysian ringgit exchange rate continued to climb, based on the closing rates, for four consecutive days from November 11 to 14, reaching the MYR 4.49 level on November 14. In his speech, FRB Chair Jerome Powell emphasized that he was not in a hurry to cut the policy interest rate, possibly because he confirmed strong figures in the U.S. economic indices. Therefore, on November 15, at the end of the week, downward pressure on the Malaysian ringgit strengthened again. However, the third-quarter GDP of Malaysia was released thereafter, and the result turned out to be +5.3%, remaining at the same level as the preliminary figure. Furthermore, some market participants carried out transactions to take profits before the weekend. As a result, the rise of the U.S. dollar/Malaysian ringgit slowed down, approaching the MYR 4.47 level. In the following week, interest rates in the U.S. fell, but the U.S. dollar index remained high, as the media reported that Russia had lowered the threshold for the use of nuclear arms, while FRB officials had made some hawkish remarks. Thus, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating at around the MYR 4.47 level.

At the end of the month, the president of the Federal Reserve Bank of New York made a remark predicting a fall in interest rates. However, impact on the foreign exchange market was minimal, and the U.S. dollar/Malaysian ringgit exchange rate remained at around the MYR 4.47 level until the last week of the month. Thereafter, market sentiment worsened, as the next president of the U.S., Donald Trump, expressed an idea to introduce additional tariffs on particular countries, including China and Canada. However, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range. In the minutes of the FOMC meeting, additional policy interest rate cuts were implied. Furthermore, expectations for additional economic stimulus measures in China were strong, even though market participants remained cautious about the potential introduction of additional tariffs by the U.S. As a result, the U.S. dollar/Malaysian ringgit exchange rate fell to the MYR 4.44 level and remained at that level until the Thanksgiving holidays in the U.S. On November 28, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range.

2. Outlook for This Month

In December, the U.S. dollar/Malaysian ringgit exchange rate is forecast to remain stable, although it is likely to rise only to a limited extent.

Over the past two months, major Asian currencies, including the Malaysian ringgit, depreciated against the U.S. dollar based on so-called "Trump trades," partially not only because of the strong figures in the September employment statistics of the U.S. but also because of the outcome of the presidential election in the U.S., at which Donald Trump won to be the next president of the U.S., as had been anticipated since October. With regard to the Malaysian economy, the third-quarter GDP of Malaysia was announced with a confirmed figure, and the annual economic growth rate has so far been approximately 5.2%, almost reaching 5.3%—the upper end of the outlook included in the budget bill for 2025 released in October. In the fourth quarter, exports to the U.S. and China are likely to increase due to last-minute demand. Thus, the Malaysian economy is expected to remain steady in the fourth quarter, thanks to strong exports and domestic demand.

Furthermore, given the current stance of the central bank of Malaysia and the inflation outlook for 2025, market participants are expected to continue buying the Malaysian ringgit. This is due to narrower interest rate differentials between the U.S. and Malaysia, as well as steadily accumulating trade surplus in Malaysia, even though the market estimate is that policy interest rate cuts in the U.S. will slow down in the times ahead. However, the second Trump administration is about to start, while there is no important event in Malaysian in December. Therefore, it is unlikely for the Malaysian ringgit to appreciate against the U.S. dollar based on domestic factors in Malaysia. The only possibility is that China may announce additional economic stimulus measures at the last minute, which could encourage market participants to buy the Malaysian ringgit due to improved sentiment.

With regard to external factors, there are negative factors for the Malaysian ringgit, including the situation in the U.S. as well as the geopolitical risks growing based on the situation in Ukraine, with which the U.S. strengthened ties before the change of the president. It is also worth noting that the majority of companies in the U.S. have their fiscal year ending toward the end of the year. Thus, capital return is likely to happen toward that time. As a result, the U.S. dollar index is not likely to fall significantly in December, maintaining the U.S. dollar strong in the overall foreign exchange market.

Under such circumstances, there have been no decisive factors in Malaysia since the second-quarter period. However, external factors are rigorously leading the U.S. dollar to appreciate. As a consequence, the U.S. dollar/Malaysian ringgit exchange rate is forecast to remain high and stable.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – December 2024

Expected Ranges **Against the US$: IDR 15,700–16,200**
Against the yen: JPY 0.9346–0.9709 (IDR 100)

1. Review of the Previous Month

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

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the lower-IDR 15,700 level on November 1. On the same day, the October Consumer Price Index (CPI) of Indonesia was released, and the result turned out to be +1.71% year-on-year, exceeding the market estimate, which was +1.66% year-on-year. However, this result was below the previous month's figure, remaining near the lower end of the inflation target range set out by the central bank of Indonesia, which is between +1.5% and +3.5%. In reaction, market participants expected the central bank of Indonesia to cut its policy interest rate further, and the Indonesian rupiah slightly depreciated against the U.S. dollar, leading the U.S. dollar/Indonesian rupiah exchange rate to reach the mid-IDR 15,700 level. In the following week, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at the IDR 15,700 level without moving in any direction, as the presidential election in the U.S. was approaching. On November 6, the media started to give preliminary reports on vote counting, seeing it more likely for Donald Trump to win the election. In reaction, the U.S. dollar strengthened, and the Indonesian rupiah depreciated, with the U.S. dollar/Indonesian rupiah exchange rate temporarily reaching the mid-IDR 15,800 level. Also, on November 7, the following day, during local time in the U.S., a Federal Open Market Committee (FOMC) meeting was held, and the policy interest rate was cut by 0.25%, as had been anticipated by many market participants. In reaction, the U.S. dollar weakened on November 8, the following day, and the U.S. dollar/Indonesian rupiah exchange market opened trading at the mid-IDR 15,600 level. However, some market participants bought back the U.S. dollar on the same day during Asian trading hours, reversing the trend. As a result, the Indonesian rupiah depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 15,600 level. In the following week, overall Asian currencies depreciated on November 11, as there was a sense of disappointment in the market after the press conference of the Standing Committee of the National People's Congress held during the weekend, at which no additional economic stimulus measures were announced. Following this trend, the Indonesian rupiah also further depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 15,600 level. On November 12, the media reported that Republican Party in the U.S. was likely to secure a majority in the House of Representatives, and this strengthened the U.S. dollar, with the U.S. dollar/Indonesian rupiah exchange rate approaching the IDR 15,800 level. On November 13 local time in the U.S., the October CPI of the U.S. was announced. In reaction, the U.S. dollar depreciated slightly, but the general trend of a strong U.S. dollar did not change. Consequently, on November 14, the following day, during Asian trading hours, the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 15,800 level. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range mainly at around the IDR 15,800 level. On November 20, the central bank of Indonesia held a monetary policy meeting and decided to keep its policy interest rate at the existing level. Some market participants had expected the policy interest rate to be cut, but there was little reaction in the market to this news. Subsequently, the media reported that Russia had lowered its threshold for the use of nuclear arms, which strengthened risk-averse sentiment in the market, while Federal Reserve Board (FRB) officials made hawkish remarks. As a result, the U.S. dollar appreciated, resulting in the depreciation of the Indonesian rupiah. Thus, on November 21, the U.S. dollar/Indonesian rupiah exchange rate once reached the mid-IDR 15,900 level.

The U.S. dollar/Indonesian rupiah exchange rate remained at the IDR 15,900 level without rising further. Thereafter, the media reported that Israel and Lebanon had agreed to a ceasefire, which led the Indonesian rupiah to temporarily rally to the mid-IDR 15,800 level. However, toward the end of the month, there was strengthened pressure to sell the Indonesian rupiah based on actual demand, and the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 15,900 level once again, at which level monthly trading closed.

2. Outlook for This Month

In December, the Indonesian rupiah is forecast to remain weak.

In November, the Indonesian rupiah depreciated against the U.S. dollar because of the appreciation of the U.S. dollar that resulted from the outcome of the presidential election in the U.S. As a result, the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 15,900 level for the first time in eight months. While some market participants had expected a policy interest rate cut in Indonesia, the central bank of Indonesia decided to keep the policy interest rate at the existing level. This decision is likely to be for the purpose of controlling the exchange rate, as the U.S. dollar continues to appreciate while the Indonesian rupiah is depreciating under the current conditions.

On November 1, the October Consumer Price Index (CPI) of Indonesia was announced, and the result turned out to be above the market estimate. The core CPI recorded accelerated growth at +2.21% year-on-year. However, the rise of the core CPI does not seem to indicate an increase in consumer confidence in spending, as the price of gold is appreciating, and sales of automobiles have been sluggish. The central bank of Indonesia thus seems to face a dilemma. On one hand, policy interest rate cuts would boost the domestic economy, while on the other hand, the central bank needs to remain cautious about decisions on further policy interest rate cuts, as it has an attitude to prioritize the stability of the exchange rate.

The U.S. economic indices remain strong, and an increasing number of market participants expect the FOMC not to cut its policy interest rate at its December meeting. Under such circumstances, the U.S. dollar is likely to remain strong. Thus, the Indonesian rupiah is forecast to remain weak against the U.S. dollar.

As mentioned above, the central bank of Indonesia wants to cut its policy interest rate, but this is impossible in the face of the depreciation of the Indonesian rupiah. In April this year, the central bank of Indonesia decided to raise its policy interest rate in order to control the depreciation of the Indonesian rupiah. At this time, the governor of the central bank of Indonesia, Perry Warjiyo, revealed his outlook that the Indonesian rupiah would continue appreciating against the U.S. dollar toward the end of the year, leading the U.S. dollar/Indonesian rupiah exchange rate to reach around the IDR 15,800 level by the fourth quarter. Given this, it is unlikely for the central bank of Indonesia to cut its policy interest rate when the U.S. dollar/Indonesian rupiah exchange rate is above the IDR 15,800 level. Therefore, it is difficult for the policy interest rate of Indonesia to be cut in December.

While the U.S. dollar continues to appreciate, the central bank of Indonesia is expected to control the depreciation of the Indonesian rupiah through foreign exchange market interventions without cutting its policy interest rate.

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

Philippine Peso – December 2024

Expected Ranges **Against the US$: PHP 57.50–59.50**
Against the yen: PHP 0.380–0.400

1. Review of the Previous Month

In November, the Philippine peso depreciated against the U.S. dollar, gradually approaching its lowest rate since the beginning of the year.

In November, the U.S. dollar/Philippine peso exchange market opened trading at PHP 58.27. Then, on November 5, the October price statistics of the Philippines were released, and the outcome was generally as expected, at +2.3% year-on-year (whereas the market estimate was +2.3% and the previous month's result was +1.9%) and at +0.2% from the previous month (whereas the market estimate was +0.3% and the previous month's result was -0.2%). According to the central bank of the Philippines, the price level has been fluctuating at around the lower end of the target range, which is between +2.0% and +4.0%, and thus the central bank plans to maintain its policy of monetary easing, which implies a policy interest rate cut in December. However, the central bank of the Philippines also pointed out that price inflation pressure might strengthen from 2025 toward 2026, given the expected rise of resource and energy prices, as well as an increase of salary. Although it was difficult to predict the outcome of the presidential election in the U.S. until the last minute, it gradually became more likely for Donald Trump to win as vote counting advanced. As a result, expectations grow for policy measures to be taken as well as economic expansion, and this encouraged market participants to buy the U.S. dollar globally. Following this trend, the Philippine peso depreciated against the U.S. dollar in an accelerated manner, and the U.S. dollar/Philippine peso exchange rate approached the PHP 58.80 level.

In the middle of November, pressure to buy the U.S. dollar weakened, and the U.S. dollar/Philippine peso exchange rate fell slightly to the lower-PHP 58 level. However, the July–September quarter GDP of the Philippines was announced on November 11, and the result turned out to be +5.2% year-on-year (whereas the market estimate was +5.7% and the previous month's result was +6.4%). This was the lowest level in five quarter periods, which led the U.S. dollar/Philippine peso exchange rate to rally to the upper-PHP 58 level. Some market participants see this as a result of delays in some expenditures as well as the impact on agriculture, both caused by the bad weather, including successive typhoons. In any case, further policy interest rate cuts became more probable in order to support the Philippine economy in the times ahead.

At the end of the month, the U.S. dollar/Philippine peso exchange rate continued fluctuating, rising and falling repeatedly, after which it finally reached PHP 59. However, market participants sold the U.S. dollar globally thereafter, due to growing concerns over the outlook of the global economy that might be impacted by additional tariffs introduced by the next U.S. president, Donald Trump. In the end, the U.S. dollar/Philippine peso exchange rate fell to approach the mid-PHP 58 level, at which level trading closed for November.

2. Outlook for This Month

In December, the U.S. dollar/Philippine peso exchange market may see its lowest rate for the Philippine peso since the beginning of the year.

In the middle of November, Federal Reserve Board (FRB) Chair Jerome Powell expressed his view that it was not necessary to hurry in cutting the policy interest rate, as the economy has been extremely healthy, and this led some market participants to expect no policy interest rate cuts at the Federal Open Market Committee (FOMC) meeting to be held in December. Thereafter, at the end of November, the governor of the central bank of the Philippines, Eli Remolona, changed the stance of his remarks. He had previously suggested a plan to cut the policy interest rate by 0.25% again in December. However, he started to make this more ambiguous by mentioning the possibility to maintain the policy interest rate at the existing level, perhaps by first observing the situation in the U.S. The next monetary policy meeting is scheduled for the middle of December in both the U.S. and the Philippines. Statistics related to price and employment, which are seen to be a decisive factor in both countries, are to be released at the beginning of December. Depending on the results, the U.S. dollar/Philippine peso exchange rate may fluctuate violently. Toward the end of November, the U.S. dollar/Philippine peso exchange rate fell slightly below the PHP 59 level. However, it is still possible for the U.S. dollar/Philippine peso exchange rate to exceed the PHP 59 level.

It is also worth noting that long-term interest rates in the U.S. are on a rise since the victory of Donald Trump in the presidential election in the U.S., as market participants expect new policy measures to be introduced, such as tax cuts and deregulation, as well as an increase in inflation pressure in the times ahead. As a consequence, market participants are buying the U.S. dollar globally again. On the other hand, concerns grew over additional tariffs that led some market participants to sell the U.S. dollar. The inauguration of the government under the new president is still nearly two months away. However, in December, the U.S. dollar/Philippine peso exchange rate is expected to continue fluctuating every time a new policy plan is announced.

Thus, the U.S. dollar/Philippine peso exchange rate is likely to fluctuate sensitively throughout the month. In general, it seems that the upward pressure on the U.S. dollar and the downward pressure on the Philippine peso are more dominant. In order to predict whether or not the exchange rate will exceed the PHP 59 level—the resistance line—market participants are advised to pay attention to remarks from the central bank of the Philippines. Market participants are also advised to anticipate a risk scenario in which the U.S. dollar/Philippine peso will fluctuate violently touching both upper and lower ends of the expected fluctuation range, depending on the economic indices in both the U.S. and the Philippines, as well as due to remarks from Donald Trump.

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

Indian Rupee – December 2024

Expected Ranges **Against the US$: INR 83.60–84.50**
Against the yen: JPY 1.77–1.91

1. Review of the Previous Month

In November, the Indian rupee depreciated against the U.S. dollar, and the U.S. dollar/Indian rupee exchange rate exceeded the mid-INR 84 level.

The U.S. dollar/Indian rupee exchange market opened trading at the lower-INR 84 level. At the beginning of the month, the Indian rupee depreciated gradually against the U.S. dollar, following upward pressure on the U.S. dollar. Thereafter, in the middle of the month, the U.S. dollar/Indian rupee exchange rate remained flat at around the INR 84.40 level, as there were some transactions based on actual demand. Toward the end of the month, the U.S. dollar/Indian rupee exchange rate temporarily exceeded the mid-INR 84 level, which is a psychological turning point. However, in such situations, the Reserve Bank of India (RBI) was sure to intervene in the foreign exchange market so as 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 RBI kept the Indian rupee from depreciating excessively while also sending such a message toward the market. As a consequence, the U.S. dollar/Indian rupee exchange rate returned to the lower-INR 84 level after some moments of adjustment, at which level trading closed (as of November 25).

At the beginning of November, the BSE SENSEX opened trading at around the 79,500 level. Thereafter, the index recovered to the 80,000 level again, following the rise of stock prices in the U.S. Subsequently, the BSE SENSEX continued trading at around the 79,500 level. However, toward the middle of the month, the index started to fall gradually and finally approached the 77,000 level. With media reports related to Adani Group, some market participants expected the index to fall. However, market participants continued buying Indian stocks, and the index even started to rally toward the end of the month. In the end, the BSE SENSEX recovered the 80,000 level, at which level trading closed (as of November 25). On a single-month basis, there was still a net sell of Indian stocks by foreign investors. However, this trend observed from October has been slowing down, and market participants are advised to monitor the situation carefully to see if capital inflows will return in the near future.

With regard to economic indices in India, the October Purchasing Managers' Index (PMI) for the manufacturing and service industries recorded positive growth compared to the previous data. Also, the October Consumer Price Index (CPI, year-on-year) turned out to be +6.21%, also recording positive growth from the +5.49% seen in the previous data and once again exceeding 6.0%—the upper end of the inflation target range. The October trade balance revealed an expanded deficit, confirming the persistent trade deficit in India. Thus, the Indian rupee remains a weak currency.

2. Outlook for This Month

In December, the U.S. dollar/Indian rupee exchange rate is forecast to fluctuate around the INR 84 mark

after a phase of adjustment.

In December, the U.S. dollar/Indian rupee exchange rate is forecast to fluctuate around the INR 84 mark after a phase of adjustment. In November, the Indian rupee depreciated gradually, and the U.S. dollar/Indian rupee exchange rate reached the mid-INR 84 level, which was a psychological turning point. However, the U.S. dollar/Indian rupee exchange fell rapidly thereafter, as the RBI intervened in the foreign exchange market to keep the exchange rate from rising further. Thus, in general, the U.S. dollar/Indian rupee exchange rate is unlikely to fluctuate violently, as the RBI is expected to continue intervening in the foreign exchange market to control the exchange rate by keeping the Indian rupee from depreciating excessively. Under such circumstances, some media reported that the RBI had instructed multiple banks to cut long positions (buying the U.S. dollar and selling the Indian rupee). Thus, the U.S. dollar/Indian rupee is expected to remain in an adjustment phase without rising significantly. However, market participants are advised to carefully observe transactions to buy the U.S. dollar and sell the Indian rupee at around the INR 84 mark, both based on actual demand and on foreign exchange market interventions by the RBI.

The October CPI recorded positive growth from the previous month, once again exceeding 6.0%—the upper end of the inflation target range. Even though this result is due to the fading base effect, market participants are advised to assess whether disinflation is really occurring. Under such circumstances, the governor of the RBI, Shaktikanta Das, made a remark to emphasize that it would be too early to cut the policy interest rate at this point. Thus, the timing of policy interest rate cuts is likely to be postponed until later, even though it remains most likely for India to enter a phase of policy interest rate cuts.

In terms of investment capital inflow into stock and bond markets in India, there was a net sell in November. However, this trend has become weaker than that in October, and the capital inflow is gradually increasing. It is likely for the Indian rupee to appreciate in the times ahead, due to strengthening pressure to sell the U.S. dollar based on policy interest rate cuts. However, given this trend has already been reflected to a certain extent in the market, market participants may not sell the U.S. dollar as much as expected. On the contrary, the U.S. dollar/Indian rupee exchange rate may even rally as expectations fade for a future trend of selling the U.S. dollar. When the Indian rupee appreciates excessively, the RBI intervenes in the foreign exchange market to support the U.S. dollar/Indian rupee exchange rate from falling further, while some market participants sell the Indian rupee based on actual demand. With the impact of such actions, the Indian rupee is most likely to start depreciating again gradually. However, capital inflow into the U.S. resumed after the presidential election in the U.S., and this may accelerate the depreciation of the Indian rupee against the U.S. dollar. In such a case, the RBI is likely to intervene in the foreign exchange market, as was the case in November, in order to keep the U.S. dollar/Indian rupee exchange rate from rising.