# Mizuho Dealer's Eye

January 2025




Mizuho Bank, Ltd.

Global Markets Sales & Trading Department

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# U.S. Dollar – January 2025

**Expected Ranges** **Against the yen: JPY155.00–163.00**

## Outlook for This Month

The dollar/yen pair is expected to fluctuate wildly at highs in January. Amid concerns about an intervention in the currency markets by the Japanese authorities, a number of very noteworthy events will be rolling around in the latter half of the month, including Donald Trump's inauguration and meetings by the FOMC and BOJ. Though the dollar will continue to be bought and the yen sold, some volatility will be unavoidable.

Events on the US side include the release of economic indicators like the December employment data (released January 10) and the December CPI data (January 15). However, the markets will be locked in wait-and-see mode ahead of the start of the second Trump administration on January 20, so provided these indicators do not fall sharply below expectations, they are unlikely to shift expectations that the FOMC will hold off from lowering rates when it meets over January 28–29. While remaining on guard against unpredictable comments by Trump concerning various protectionist policies, observers should watch to see if he makes good on his threats to impose further sanctions on China and so on after his inauguration. Either way, stocks, interest rates and the greenback will probably rise for now on fears about a resurgence of cost-push inflation.

In Japan, meanwhile, the BOJ's Monetary Policy Meeting will be held over January 23–24. At the last meeting, the BOJ said the situation was growing more conducive to an adjustment in the scale of monetary easing. However, it postponed rate hikes on uncertainty about the US economy while adding that it wanted to wait for the results of spring wage negotiations in Japan. It will probably shelve rate hikes for the same reason this month too. The 2025 Report of the Special Committee on Management and Labor Policy will probably confirm the momentum for wage hikes this spring, but with the January BOJ meeting taking place soon after Trump's inauguration, it will probably be too early to judge whether economic uncertainty in the US has come full circle. If so, the yen will have room for further selling on waning expectations for a January rate hike. Investors should also keep an eye on speculative yen shorts about the time of the BOJ meeting. Furthermore, though the BOJ is unlikely to make a fully-fledged intervention during the political transition in the US, the currency pair might fall sharply on verbal interventions by the Japanese authorities when the pair moves erratically, so caution will be needed.

## Dealers' Market Forecast

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

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| Bullish on the dollar | 12 bulls | 161.00 – 154.25 | Bearish on the dollar | 3 bears | 160.00 – 152.50 |

* Ranges are central values

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| Miyachi | Bear | 159.50 – 152.50 | The dollar will probably rise ahead of Donald Trump's inauguration. If the yen weakens, though, this will lead to rising speculation about a BOJ rate hike or an intervention by the authorities, so the dollar/yen pair's topside will probably be capped. |
| Kawai | Bull | 161.00 – 155.00 | The dollar/yen pair will move firmly on expectations for a slower pace of US rate hikes and Japanese purchases of overseas assets in relation to start-of-year NISA movements. Depending on the pair's level, though, Japanese officials might reiterate comments they made at the end of 2024, so the pair might fall sharply on concerns about an intervention. |
| Kawabata | Bull | 162.50 – 154.50 | With BOJ governor Kazuo Ueda talking about the need for further factors at the December BOJ meeting, expectations for more rate hikes are waning. Investors will also be turning their eyes to the impact of President Trump's policies, so the yen is likely to remain bearish, with the dollar/yen pair set to rise again after being adjusted through the 150 yen mark. |
| Kato | Bear | 160.00 – 150.00 | The direction of the dollar/yen pair will be decided by the US's stance, with momentum clearly inclined toward dollar bullishness. However, it is impossible to overlook the negative impact of yen weakness on the Japanese economy, with this something the authorities will also need to tackle. Even if investors test the pair's topside, the pair will eventually peak out this month. |
| Yamazaki | Bull | 161.00 – 154.00 | The yen weakened in December on monetary policy meetings in Japan and the US, with this situation likely to continue in January too. The BOJ will be meeting again, but it will probably wait until March before lifting rates. As a result, the dollar/yen pair will probably rise to around 160 yen. |
| Yamaguchi | Bull | 161.00 – 155.00 | The main theme this month will remain Japanese and US monetary policy. The US will keep policy fixed for the time being, but there are high expectations for a BOJ rate hike in the first quarter. If expectations of an early rate hike by the BOJ wane, the yen will be sold, so caution will be needed. |
| Tagawa | Bull | 161.00 – 153.50 | In December, the BOJ made some comments that were more dovish than expected. On the other hand, the US economy remains firm, with the dollar likely to rise when Donald Trump assumes office. The dollar/yen pair will trend upwards on the whole, but its room on the topside might be capped by expectations for an intervention by the Japanese authorities. The pair will probably move at highs. |
| Matsunaga | Bull | 161.00 – 154.00 | A January BOJ rate hike is still possible, but investors will find it hard to buy the yen given recent comments by BOJ governor Kazuo Ueda, for example. The dollar/yen pair will fluctuate on movements around the time of Donald Trump's inauguration, but the greenback looks set to remain firm. |
| Katoono | Bull | 162.00 – 154.00 | The US and Japan are both likely to hold off from any further monetary policy moves given Japanese domestic demand and uncertainty about the US administration. Furthermore, Japanese money will continue to flow into overseas assets as the new NISA kicks off, so investors will probably test the dollar/yen pair's topside intervention line. |
| Okuma | Bull | 161.00 – 154.00 | There is uncertainty about the outlook for further BOJ rate hikes. With the FRB also expected to cut rates at a slower pace, the trend of dollar bullishness and yen bearishness looks set to continue. With US interest rates also remaining high on the firm US economy, the greenback is likely to continue moving strongly. |
| Ito (Motoi) | Bull | 161.00 – 154.00 | There is a sense that the dollar rose a little too high towards the end of 2024. However, it seems unlikely that the BOJ will shift in a hawkish direction. As such, it seems investors will gradually test the dollar/yen pair's topside this month. |

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| Han | Bull | 161.00 – 154.50 | As market participants focus on further easing in Europe and China on concerns about an economic slowdown, the greenback looks set to move comparatively firmly. The BOJ's direction is unclear at this moment in time, though it is unlikely to move in a hawkish direction. |
| Suzuki | Bull | 161.00 – 155.00 | Uncertainty is smoldering away ahead of the Donald Trump's inauguration, but investors will continue to buy the dollar on the firmness of the US economy and waning expectations for rate cuts. It is also hard to imagine the BOJ making are sharp policy shifts, so the dollar/yen pair will probably have its topside tested. |
| Nishi | Bull | 162.00 – 156.00 | Investors will focus on Donald Trump's moves ahead of his inauguration. The BOJ will find it hard to lift rates when it meets this month, so with Japanese/US interest-rate differentials unlikely to shrink, the dollar/yen pair is likely to continue moving firmly. |
| Matsuki | Bear | 160.00 – 154.00 | The likelihood of a BOJ rate hike in January is currently below 50%, with the dollar/yen pair likely to be swayed by BOJ communications. If the yen weakens to 160 yen and expectations for a BOJ then rise, there will be considerable room for yen appreciation. |

Yoshiki Shima, Global FI Team, Global Markets Sales & Trading Department

# Euro – January 2025

**Expected Ranges** **Against the US$: US$1.0000–1.0500**
**Against the yen: JPY156.00–165.00**

## Outlook for This Month

The euro is set to move bearishly in January on the divergent monetary policy stances of the FRB and ECB, with the euro also hit by uncertainty about the German and French political situation and concerns about the possibility of new tariffs once the Trump administration takes the reins of power.

The ECB Governing Council implemented a 25bp rate cut in December. With the European economy facing downside risk, it seems nailed on that the Council will lower rates again this month and in March, with some observers even predicting a 50bp cut at one of these meetings. The FOMC also implemented a 25bp rate cut in December, but the dot chart showed projections for 2025 rate cuts halving from four at the last meeting (September) to two last month. FRB chair Jerome Powell also hinted the FRB might take a more prudent stance towards further rate cuts and he indicated that the interest rate adjustment process had entered a new phase, with the meeting striking a hawkish tone across the board. Amid a clear divergence in FRB and ECB monetary policy, the euro/dollar pair is likely to continue trending lower. The political situation remains tumultuous too. The coalition government collapsed in Germany, with a general election now penciled in for February, for example, while political turmoil continues to smolder in France, which saw three changes of prime minister in 2024. Under these circumstances, the swap spread on German 10-year government bonds dipped into negative territories (10-year bond yields topped swap rates of the same duration) for the first time on concerns about increased sovereign debt issuances. With France/German government bond yield spreads also continuing to widen, the impact of political instability is starting to manifest itself in the markets. This political instability sweeping the EU's core nations of Germany and France will continue to weigh down the euro/dollar pair's topside too. On December 20, Donald Trump also posted on social media that he would impose sanction on the EU if they did not import more US oil and gas. If higher tariffs seem a very real possibility, the euro might be sold on concerns about a European economic downswing. A glance at the pair's level suggests it will clearly drop below its \$1.04–\$1.12 range from 2023 onwards to edge down towards parity.

## Dealers' Market Forecast

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

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| Bullish on the euro | 1 bull | 1.0500 – 1.0150 | Bearish on the euro | 14 bears | 1.0500 – 1.0000 |

* Ranges are central values

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| Miyachi | Bear | 1.0400 – 0.9950 | The euro/dollar pair will move with a heavy topside on speculation about widening US/European interest-rate differentials and the divergent monetary policy stances of the FRB and ECB. Europe's sluggish economy and political instability in France and Germany are further reasons to expect investors to test the pair's downside this month. |
| Kawai | Bull | 1.0500 – 1.0150 | It seems the dollar will continue to rise and the euro fall on divergent European and US fundamentals and different expectations when it comes to the number of rate cuts. However, the euro/dollar pair is already quite low and it will also be supported by real demand as energy prices fall sharply, so the pair will probably rally this month. |
| Kawabata | Bear | 1.0500 – 0.9900 | With the EU economy moving weakly and Donald Trump set to be inaugurated at the end of January, investors will probably focus on negative euro factors, with the euro/dollar pair already close to $1.05, a level it breached for the first time in two years in November. Expectations for 2025 FOMC rate cuts have also waned, so the currency pair will probably test parity this month. |
| Kato | Bear | 1.0500 – 1.0000 | There are ample reasons to expect some adjustive euro buy-backs, but market participants will probably try pushing the euro/dollar pair toward parity on the divergent situation in the US and Europe. A lot depends on the situation in the US, though, so it is hard to gauge whether the pair will continue falling from here on. |
| Yamazaki | Bear | 1.0550 – 1.0200 | With investors focusing on political risk in Europe, the euro/dollar pair is likely to continue moving bearishly until February. The pair is not expected to reach parity in January. Investors should keep an eye on political headlines. |
| Yamaguchi | Bear | 1.0500 – 1.0100 | The dollar will be bought on the divergent monetary policies of the US and Europe. Investors will also focus on the US/European economic gap from the start of the year, with the euro likely to be sold further. If global risk aversion intensifies, the euro/dollar pair could fall sharply, so caution will be needed. |
| Tagawa | Bear | 1.0450 – 1.0000 | There will be limited room for euro buying given the different policy stances of the ECB and FRB, a projection also supported by a glance at economic indicators and political instability within Europe. As such, the euro/dollar pair looks set to continue sliding. The pair will probably head toward the $1.0000 (parity) barrier. |
| Matsunaga | Bear | 1.0600 – 1.0250 | Europe faces a number of bearish factors, including geopolitical risk, political risk, and the risk of an economic recession, so the euro/dollar pair will trade with a heavy topside. The pair could weaken further on Donald Trump's tariff policies, so caution will be needed. |
| Katoono | Bear | 1.0550 – 1.0100 | The euro/dollar pair will continue to face bearish factors, including the growing gap between the US and European economies and the growing risk of political ruptures on the rise of the right in Europe. The pair will remain bearish as investors also price in further rate cuts by the ECB. |
| Okuma | Bear | 1.0500 – 1.0100 | Germany and France continue to face political turmoil. With the upcoming Trump administration also like ramp up tariffs, there is a lot of uncertainty, particularly when it comes to the direction of the German economy. With the ECB expected to implement four 0.25% rate cuts this fiscal year, the euro/dollar pair looks set to move bearishly. |
| Ito (Motoi) | Bear | 1.0500 – 1.0000 | The markets have already priced in eurozone economic and political instability to a considerable extent, but there is still some way to go before these factors run their course. Amid a dearth of reasons to actively buy the euro, the euro/dollar pair looks set to continue moving bearishly. |

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| Han | Bear | 1.0400 – 1.0000 | The ECB will probably incline in an easing direction on concerns about an economic slowdown. With political uncertainty also smoldering away, investors will find it hard to actively buy the euro. |
| Suzuki | Bear | 1.0500 – 1.0000 | There is a stream of factors prompting euro selling, including geopolitical risk and political risk. The euro/dollar pair will also move bearishly on the economic gap and the divergent monetary policies of the US and Europe. |
| Nishi | Bear | 1.0500 – 1.0100 | The ECB will lower rates when it meets in January. In the run up to Donald Trump's inauguration, uncertainty will grow about whether the European economy will be hit by further tariffs, with the euro/dollar pair set to move heavily. The pair will move bearishly on political uncertainty and the clear difference in the performance of the US and European economies. |
| Matsuki | Bear | 1.0500 – 1.0000 | The ECB looks set to continue lowering rates on the weakness of the eurozone economy. With Germany and France also facing political instability, the dollar will continue to be bought on the strength of the US economy and expectations towards the Trump administration. |

Fumihiko Kanda, Europe Treasury Department

# British Pound – January 2025

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| **Expected Ranges** | **Against the US$: US$1.2300–1.2800** |
| | **Against the yen: JPY189.00–201.00** |

## 1. Review of the Previous Month

The GBP/USD pair moved with a heavy topside last month. After opening in the lower-$1.27 range on December 2, the pair weakened to the lower-$1.26 mark. It was pulled down by euro bearishness on French political instability, with the greenback also moving bullishly after the release of the November Manufacturing ISM Report on Business. The US November employment data was then released toward December 6. With the unemployment rate up on forecasts, the dollar was sold on renewed expectations for rate cuts, with the GBP/USD pair rallying to $1.28 for a time. It was then sold on the lower-$1.26 level on December 13 when the UK's October GDP data unexpectedly posted negative growth. The UK October wages data was released on December 17 and this was up on forecasts. This led to a sharp unwinding of expectations for UK rate cuts in 2025, with the pair subsequently recovering to $1.27. The dollar was bought and the pair tumbled to the mid-$1.25 mark on December 18 after the FOMC implemented a "hawkish" rate cut. As expected, the Bank of England (BOE) kept rates policy fixed when it met on December 19, but the Monetary Policy Committee (MPC) gave a dovish outlook, so the pair slipped to the upper-$1.24 level. The pair ended the year floating around $1.25–26.

The pound rose against the yen. The pair started the month trading in the upper-190 yen range on December 2 before then following essentially the same trajectory as the GBP/USD pair. Sterling fell to the lower-188 yen range on December 3 for the first time since September, though it then rallied to the 192 yen range on December 6 after the release of the US November employment data. With the BOJ expected to postpone rate hikes in December, the yen moved bearishly and the currency pair rose to the upper-195 yen level on December 16. With the greenback bought over December 18–19 in the wake of the FOMC meeting, the yen was sold when the BOJ kept rates fixed, so the pound surged to 198 yen against its Japanese counterpart. The pair then floated between 196–198 yen until the end of the year.

## 2. Outlook for This Month

The GBP/USD pair is expected to move with a heavy topside in January. The BOE's Monetary Policy Committee (MPC) will not be meeting this month, so the pound will probably be swayed by speculation about a February rate cut. After the release of the UK October wages data last month, the swap markets shifted in a hawkish direction to predict four rate cuts in 2025. The PMI and other indicator had slumped after the Labour Party's autumn budget statement, though, with the October wages data is already old news. In fact, when it met on December 19, the BOE actually lowered its 4Q growth forecast compared to its prediction at the meeting in November, with the bank now shifting its focus to data released from here on. However, BOE governor Andrew Bailey indicated his support for the original plan for phased rate cuts when he said there was "a lot of noise in recent data," so observers should not expect the GBP/USD pair's momentum to be changed by any moves on the UK side. The FOMC and

BOJ will be meeting this month, though. Given the FOMC's recent hawkish shift and the impending launch of the Trump administration, it seems the FOMC will maintain the status quo this time, though the BOJ meeting could make waves. After the BOJ shelved a rate hike last month, market participants are now divided on whether the BOJ's next hike will come in January or March. The BOJ's December decision prompted the yen's slide from last month and there are slight question marks over whether the authorities should intervene. If the yen continues sliding, the BOJ might be pushed into hiking rates, with the pound likely to fluctuate quite wildly against the yen.

Yoichi Hinoue, Sydney Treasury Office, Asia & Oceania Treasury Department

# Australian Dollar – January 2025

**Expected Ranges** **Against the US$: US$0.6000–0.6300**
**Against the yen: JPY92.50–98.50**

## 1. Review of the Previous Month

The AUD/USD pair fell sharply in December. The pair closed the year trading below $0.62 for the first time since October 2022.

The pair began the month at $0.6520. With the greenback strengthening after the US presidential election, the pair moved with a heavy topside. Australia's 3Q GDP was released on December 4. The data was down on the previous year and on market forecasts, so investors tried pushing the pair below $0.64. The pair bottomed out at $0.6399 (according to Bloomberg), but the US dollar then moved strongly across the board after the release of the US November employment data on December 6, so the pair dropped clearly below $0.64. As expected, the Reserve Bank of Australia (RBA) kept policy rates fixed when it met on December 10, but the Australian dollar faced selling pressure on the RBA's bearish statement, so the pair tumbled to the lower-$0.63 mark before the FOMC meeting.

On December 9, China's Political Bureau of the Central Committee had announced that it would follow an accommodative monetary policy in 2025, with Chinese Premier Li Keqiang also saying the authorities would do whatever it took to boost demand. The AUD/USD pair is strongly correlated to the Chinese economy, so it was bought back for a time on these announcements. The pair was also bolstered when Australia released some better-than-expected November employment data on December 12, though none of this was enough to shift the pair's momentum.

The currency pair crashed after the FOMC meeting and investors then tried pushing it below $0.62. Amid dry trading about the end of the year, the pair hit $0.6179 and it closed 2024 trading at this level.

## 2. Outlook for This Month

As previously mentioned, the RBA shifted in a dovish direction last month.

The RBA's statement said the bank was "gaining some confidence" that inflation was returning to target, with the RBA also removing hawkish comments from the last statement about how it was "not ruling anything in or out" and how policy would "need to be sufficiently restrictive."

The Australian dollar's implied interest rate has finished pricing in two 25bp rate cuts by May. At the start of December, this figure had stood at two rate cuts by the end of September, so it seems investors have priced in earlier rate hikes to a certain extent.

Under these circumstances, although the Australian dollar might be bought back, it will face a dearth of buying factors given how US interest rates are trending upwards and Donald Trump is set for his formal inauguration. As such, the AUD/USD pair looks set to continue trading bearishly on this current momentum, with investors likely to test the pair's downside at the start of the year.

At the time of writing (17:00 on January 3, Sydney trading time), the pair was rallying after previously slipping below $0.62 at the year's end. At one point, it seemed its 2022 low at the mid-$0.61 mark would serve as the pair's support line for some time to come, but this is no longer the case. Investors may test this level tonight too. If does breach this level, it could trade very erratically to break through $0.6 for the first time since the pandemic, so caution will be needed.

Yasuko Iwata, Canada Markets Office, Americas Markets Department

# Canadian Dollar – January 2025

**Expected Ranges** **Against the US$: C$1.4200–1.4600**
**Against the yen: JPY105.00–111.50**

## 1. Review of the Previous Month

The USD/CAD pair broke above C$1.40 mid-November for the first time since March 2020. With the Canadian economy remaining sluggish and the markets swept by political turmoil, though, the pair had hardly any room to stage a comeback in December, so the pair continued trading at C$1.40 or above for most of the month.

The US and Canadian November employment data was released on December 6. Though Canada saw an increase in new jobs, the unemployment rate worsened further to hit 6.8%, so the currency pair surged to C$1.41.

When the Bank of Canada (BOC) met on December 11, it implemented a 0.50% rate hike, as expected, with the policy rate lowered to the upper range of a level (2.25–3.25%) that the BOC regards as the neutral rate.

News emerged mid-December that Canada was considering imposing taxes on uranium, crude oil and other major commodities sold to the US in the event that Donald Trump went through with plans to impose a 25% tariff on Canadian products. After a series of cabinet resignations, meanwhile, Canada's deputy prime minister and finance minister Chrystia Freeland announced she was stepping down after clashing with prime minister Justin Trudeau over fiscal expenditures. Amid political turmoil, the USD/CAD pair broke above C$1.42. At its meeting on December 18, the FOMC projected there would be fewer rate cuts in 2025 than the markets were expecting, so the greenback rose across the board and the currency pair hit a high of $1.4467.

Liquidity was thin on the ground during the holiday season late December. Canada released no major indicators during this time, so the pair continued trading in a range between the lower-C$1.43 mark and the mid-C$1.44 level.

## 2. Outlook for This Month

The Canadian dollar noticeably weakened from October. This was partly due to interest-rate differentials on the divergent monetary policies of the US and Canada, for example, as well as uncertainty related to discussions over Donald Trump's tariffs. The Canadian dollar was also buffeted when Canadian political instability suddenly intensified in December.

When it comes to monetary policy, both the FRB and most market participants are expected the FRB to implement around two rate cuts in 2025. At the December BOC meeting, BOC governor Tiff Macklem said the BOC anticipated "a more gradual approach to monetary policy" going forward. However, the unemployment rate has continued to rise and a real economic recovery seems some way off. With uncertainty also lingering when it comes to Donald Trump's tariffs, the markets are expecting more BOC rate cuts in 2025, with many observers predicting at least two and as many as four. As of the end of November, market bets on a rate cut at the January 29 BOC meeting had risen to over 70%.

As for the Canadian political situation, Canadian prime minister Justin Trudeau is facing growing pressure to step down. A general election is penciled in for autumn 2025, but this might end up taking place a lot earlier. The

Liberal Party is currently running a minority administration, but its approval ratings have already slumped on its reaction to high prices and the housing problem, with opinion polls suggesting it would lose sharply to the Conservative Party (the largest opposition party) in the event of a general election. Since the turn of the year, the discussion about tariffs has centered around concerns about the significant negative impact on Canada of political instability if the US and Canada engaged in a fully-fledged trade dispute.

With the Canadian economy moving weakly and the Canadian dollar moving heavily on political uncertainty related to Donald Trump’s inauguration and the Canadian political situation, it seems the USD/CAD pair’s upper price will be C$1.46 and its lower price C$1.42 in January.

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

# Korean Won – January 2025

**Expected Ranges** **Against the US$: KRW 1,350–1,400**
**Against the yen: JPY 10.40–11.00 (KRW100)**

## 1. Review of the Previous Month

The USD/KRW pair rose sharply in December. The pair opened the month trading at KRW1396.0. The BOK unexpectedly decided to cut rates again at the end of November. South Korea's November CPI figure was then released on December 3. At +1.5% y-o-y, the figure was down on expectations, so the won underwent a gentle slide.

During the evening of December 3, President Yoon Suk Yeol suddenly announced martial law, so the currency pair rocketed to KRW1442.0 on risk aversion. Martial law was lifted in around six hours, so the pair returned to around KRW1418 at the start of trading on December 4. With headlines then swirling about the ruling and opposition parties moving to impeach President Yoon, the won continued sliding on political instability. The first impeachment bill failed, with the currency pair then rising to KRW1430 the following week as the markets reacted badly to the possibility of drawn-out political instability. An impeachment bill was passed on December 14, with South Korea's prime minister Han Duck-soo becoming the acting president. As uncertainty waned for a time, the currency pair was pushed down to KRW1420. However, expectations for a slower pace of US rate cuts grew after the December 18 FOMC meeting. With investors also focusing on widening differentials between South Korean and US interest rates, the currency pair hit KRW1450 on December 19.

The won continued sliding late December. South Korea's Constitutional Court did not have enough sitting judges to oversee President Yoon's impeachment case, but acting president Han Duck-soo refused to immediately fill the vacancies on the grounds that he did not have the authority to do so. The opposition party opposed this and they submitted a bill to impeach Han Duck-soo too. With no end to political turmoil in sight, the won weakened further and the currency pair temporarily hit a high of KRW1486.7. The motion to impeach Han Duck-soo was then passed, with deputy prime minister and minister of economy and finance Choi Sang-mok then assuming the role of acting president. As political turmoil dragged on, the pair closed at KRW1472.5 (as of 15:30 on December 30).

## 2. Outlook for This Month

The USD/KRW pair is expected to continue moving firmly in January. There seems to be no end in sight to the domestic political turmoil. The ruling and opposition parties remain at loggerheads when it comes to filling the vacancies on the Constitutional Court, with the opposition party filing several impeachment motions. Furthermore, reports suggest South Korea's joint investigation unit is seeking an arrest warrant for President Yoon on suspicion of insurrection. Amid growing fears that political paralysis will drag on into the long term, there are also concerns about a diplomatic vacuum. There is deep uncertainty about how policy will be steered after Donald Trump is inaugurated in January 2025, for example. The BOK also seems to have intervened in the forex markets at times, but the won's recent slide is due to political uncertainty, so until this factor is conclusively put to bed, any moves by the BOK will be just like sprinkling water on parched soil.

At the moment, most observers are expecting the BOK to leave policy rates unchanged when it meets in January. Inflation has moved below 2% these past few months, but there are concerns that ongoing rate cuts will lead to won selling as US/South-Korean interest rate differentials widen. As the real-demand flow recovers at the start of the year, the USD/KRW pair's topside will be held down by real demand as exporters sell the greenback. It is hard to see South Korea's political problems being resolved any time soon, though, so the pair is likely to continue moving firmly in January.

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

# New Taiwan Dollar – January 2025

**Expected Ranges** **Against the US$: NT$32.25–33.25**
**Against the yen: JPY4.52–4.95**

## 1. Review of the Previous Month

The USD/TWD pair rose in December.

The pair opened the month trading at TWD32.495 on December 2. The greenback faced upwards pressure in international currency markets as Donald Trump threatened to impose tariffs on China, Canada and Mexico, so the pair strengthened to TWD32.60. The Taiwan dollar was then bought as risk sentiments improved and Taiwanese stocks were pulled up by the bullish hi-tech sector, so the currency pair traded with a heavy topside. During this time, the pair temporarily plunged below TWD32.40 as exporters sold the greenback at a faster pace.

The US CPI data was released mid-December. At +0.308% m-o-m, the core CPI figure was broadly in line with market forecasts (+0.3% m-o-m). The markets grew more convinced that the US would implement a December rate cut, but the impact on the currency pair was muted and the pair broadly moved in a range between TWD32.40–32.60.

As expected, the FRB implemented a rate cut late December. However, it lowered its rate cut forecast for 2025 form a combined total of 100bp to 50bp, so the US dollar soared in tandem with US long-term interest rates, with the currency pair then rising to TWD32.70. The Central Bank of the Republic of China (Taiwan) then kept its policy rate fixed at 2.0% for the third straight meeting as it maintained its prudent stance, so the market reaction was muted and the pair moved in a range around TWD32.75.

## 2. Outlook for This Month

The USD/TWD pair is expected to trade in a range in January.

In the Monetary Policy Meeting of the Central Bank of the Republic of China (Taiwan) held in December, it kept its policy rate fixed at 2.0%. In contrast to the meetings in June and September, this time it also kept its deposit reserve requirement ratio and its housing market credit regulations unchanged. Furthermore, Taiwanese exports continue to be supported by AI-related demand. With domestic demand also continuing to expand, the Bank of Taiwan upgraded its 2024 GDP forecast from 3.8% to 4.1%. The outlook for 2025 remained unchanged at 3.1%. However, the bank is expecting the inflation rate to slow form 2.2% in 2024 to 1.9% in 2025.

In January, the greenback will be bolstered as US interest rates remain high after the FOMC meeting. There will also be a rush of demand to beat the imposition of higher tariffs by the new Trump administration, but if this rush is larger than expected, exporters might sell the US dollar at a faster pace ahead of the Lunar New Year holidays, with this likely to support the Taiwan dollar's downside against the greenback. As such, the USD/TWD pair is expected to trade in a range around the upper-TWD32 mark in January.

Ken Cheung, East Asia Treasury Department

# Hong Kong Dollar – January 2025

**Expected Ranges** **Against the US$: HK$ 7.7650–7.7900**
**Against the yen: JPY 19.90–20.60**

## 1. Review of the Previous Month

In December, renewed China stimulus hopes following the Chinese Politburo meeting and Central Economic Work Conference boosted the Hang Seng Index and encouraged equity inflows, pushing HKD spot moderately stronger to near the 7.77 level. With China Government Bond (CGB) yields sinking to decade lows, onshore China investors remained keen to add more exposure to HK shares to lock in higher yields, lifting southbound Stock Connect flow to above HKD 780bn (USD 100bn). IPO market sentiment continued to improve, with more companies launching their listing projects by year-end. Several IPO firms received heavy oversubscriptions, locking up a significant amount of HKD during the subscription period. Consequently, the total amount of IPO financing so far this year climbed to above USD 10bn, surpassing the annual amount of USD 5.9bn in 2023.

Meanwhile, market participants digested the shock from Trump's victory, and concerns over the USD-HKD peg stability remained subdued despite the revocation of HK's special status and the passage of the Hong Kong Autonomy Act during Trump's first presidency. Indeed, restricting USD exchange into HKD would be a costly option for the US financial sector and could damage the USD's status in the currency market and as a reserve asset. In early December, President-elect Trump warned BRICS of 100% tariffs if they attempt to move away from the USD. This suggests that the Trump administration would avoid making moves that jeopardize the USD's status as a dominant global currency.

Regarding the USD-HKD interest rate spread, HK interbank rates rebounded on IPO subscription demand and year-end liquidity tightening. HK banks also slowed their prime rate cut pace to 12.5bps after the Fed's 25bps rate cut in December. As a result, the 1-month and 3-month HKD HIBOR – USD SOFR spread turned positive for the first time in a year.

## 2. Outlook for This Month

Although the HK stock market retracement and a hawkish Fed have paused HKD appreciation, the HKD spot is expected to stay in the strong half of its trading band amid the Fed's easing cycle. The sooner end of the Fed's rate cut cycle will keep USD rates supportive and push back the USD-HKD rate convergence under the Linked Exchange Rate System, preventing the HKD from hitting the 7.75 level from the perspective of Fed's monetary policy. However, developments in the HK stock market seem more encouraging. The Hang Seng Index might have bottomed out and could regain momentum if the Chinese government commits to ramping up stimulus to counter external shocks. Next year, we expect the Chinese authorities to expand fiscal stimulus and boost consumption to counter US tariff shocks, while refraining from driving a sharp RMB depreciation. Following the major policy shift to a moderately loose monetary policy in China, onshore investors will continue to seek higher yields in HK stock markets via Stock Connect and Wealth Connect channels, contributing to HKD purchase demand next year. Additionally, the IPO market is expected to improve next year as Chinese corporates are encouraged to list in the HK stock market amid tightening IPO regulations in the A-shares market, which aim to restrain equity supply and bolster the struggling A-shares markets. On the HK side, improving domestic business sentiment and stabilizing property markets should support corporate and mortgage loan demand, thereby narrowing the USD-HKD rate spread in the medium term.

Hiroshi Takemoto, Treasury Department, MHBK (China)

# Chinese Yuan – January 2025

**Expected Ranges** **Against the US$: CNY 7.2500–7.3800**
**Against the yen: JPY 20.35–22.10**

## 1. Review of the Previous Month

In December, the U.S. dollar/Chinese yuan onshore exchange rate rose.

On December 2, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 7.24 level. Thereafter, the 10-year Chinese government bond yield fell below the 2% level, renewing the all-time low, due to expectations for monetary easing in China. Because the interest rate differentials between China and the U.S. grew, the Chinese yuan depreciated significantly against the U.S. dollar. As a result, the U.S. dollar/Chinese yuan fell to the upper-CNY 7.29 level on December 3, approaching CNY 7.30, the psychological turning point, for the first time in approximately a year and a month. Subsequently, economic indices of the U.S., such as the ISM non-manufacturing index and the ADP employment statistics of the U.S., recorded a decline, which led interest rates in the U.S. to fall. As a result, market participants predominantly sold the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate fell to once reach the lower-CNY 7.25 level on December 5. Then, on December 9, at a meeting of the Political Bureau of the Central Committee of the Communist Party of China, the principles of monetary policy were announced, placing a focus on more proactive fiscal policy and moderately loose monetary measures. In reaction, expectations grew for reinforced economic stimulus measures, strengthening the Chinese yuan. As a consequence, the U.S. dollar/Chinese yuan exchange rate fell to the upper-CNY 7.23 level on December 10. However, after a while, the U.S. dollar/Chinese yuan exchange rate recovered to the CNY 7.27 level. On December 12, in the circular released after the closing of the Central Economic Work Conference, policy measures were announced based on the decisions at a meeting of the Political Bureau of the Central Committee of the Communist Party of China, such as increasing fiscal deficit as a percentage of GDP. However, there was little reaction to this announcement in the market. Thereafter, the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a limited range, as a Federal Open Market Committee (FOMC) meeting in the U.S. was approaching. Under such circumstances, the U.S. dollar/Chinese yuan exchange rate continued rising slowly to the CNY 7.28 level, with growing caution about the Federal Reserve Board (FRB) taking an increasing hawkish attitude as well as falling government bond yields in China. On December 18, the outcome of the FOMC meeting in the U.S. turned out to be hawkish, raising interest rates in the U.S. and strengthening the U.S. dollar. As a result of this, the U.S. dollar/Chinese yuan exchange rate rose to reach CNY 7.2999 on December 19, the following day, recording the highest rate observed since the beginning of the year. Thereafter, the U.S. dollar/Chinese yuan exchange rate did not fluctuate significantly, and trading closed at 7.2994 on December 31.

## 2. Outlook for This Month

The U.S. dollar/Chinese yuan onshore exchange rate is forecast to remain high and stable in January.

Since Donald Trump has been elected to be the next U.S. president, it is likely for the U.S. dollar to appreciate in the short term, in expectation that the U.S. economy will outperform other countries thanks to its expansive fiscal policy. In particular, with regard to the Chinese yuan, as Donald Trump has announced his plan to raise customs tariffs against China as a public commitment, it is expected that downward pressure on the Chinese yuan will strengthen when the plan is executed, based on past market trends during the time of the previous Trump administration with intensified trade friction between China and the U.S. (between July 2018, in which the first additional customs tariffs against China were introduced, and January 2020, in which phase-one agreement was reached). It has not been so clear whether it is feasible to introduce customs tariffs of 60% as discussed by Donald Trump and when and how widely the policy will be implemented. However, some think tanks in the U.S. have pointed to the possibility for the new policy measures to be introduced soon after the inauguration of the new president's government. Thus, market participants should remain cautious about the possible depreciation of the Chinese yuan from a short-term perspective.

With regard to factors related to China, the principles of monetary policy were announced at a meeting of the Political Bureau of the Central Committee of the Communist Party of China, with emphasis on more proactive fiscal policy and moderately loose monetary measures. It will not be until the National People's Congress of the People's Republic of China to be held in March for the details of the economic stimulus measures to be announced in terms of the target growth rate and the expansion of domestic demand. However, downward pressure is growing on Chinese government bond yields, as it is difficult to expect the fundamentals of China to recover significantly and as market participants are waiting for policy interest rate cuts in an increasingly impatient manner. Furthermore, there has been a widening gap between the monetary policy in China and that in the U.S., with the FRB growing increasingly hawkish, which can also be considered a factor to keep the U.S. dollar/Chinese yuan exchange rate from falling.

On the other hand, the People's Bank of China (PBOC) is currently tightening its control over the daily fluctuation range of the U.S. dollar/Chinese yuan exchange rate by setting the central parity rate in a counter-cyclical manner. Thus, it is likely for the PBOC to prioritize the stability of the foreign exchange market when there is pressure for the U.S. dollar/Chinese yuan exchange rate to move in one direction. Therefore, the risk is not very high for the Chinese yuan to depreciate sharply.

Ayaka Matsumoto, Asia & Oceania Treasury Department

# Singapore Dollar – January 2025

**Expected Ranges** **Against the US$: SG$ 1.3550–1.3900**
**Against the yen: JPY 111.00–118.00**

## 1. Review of the Previous Month

In December, the U.S. dollar/Singapore dollar exchange rate rose.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange market opened trading at the upper-SGD 1.33 level on December 2. Thereafter, the U.S. dollar/Singapore dollar exchange rate fluctuated in both directions during the first week of the month, as there were different speculations about the Federal Open Market Committee (FOMC)'s decision regarding the policy interest rate cut at a meeting scheduled for the second half of the month, while risk-averse sentiment was growing given the declaration of emergency martial law in South Korea. With regard to the decision regarding the policy interest rate cut at the FOMC meeting in December, market participants were waiting for the announcement of key economic indices in the U.S., such as the November employment statistics and the November Consumer Price Index (CPI). On December 6, the November employment statistics of the U.S. were released with both strong and weak figures. Subsequently, the November CPI of the U.S. was announced on December 11, and the result turned out to be +2.7% year-on-year, as had been anticipated in the market. In reaction to the announcement of these figures, the U.S. dollar weakened temporarily. However, toward the middle of the month, interest rates rose in the U.S., and the U.S. dollar/Singapore dollar exchange rate rose gradually to the lower-SGD 1.35 level.

An FOMC meeting was held in the U.S. on December 17 and 18, and the policy interest rate was cut by 25 basis points, as had been anticipated in the market. On the other hand, in the December dot plot, the number of expected policy interest rate cuts in 2025 was revised downward from four to two. Furthermore, the neutral interest rate was revised upward to 3%. And because expectations receded for policy interest rate cuts in the U.S. in FY2025, interest rates in the U.S. rose sharply, encouraging market participants to buy the U.S. dollar. As a consequence, the U.S. dollar/Singapore dollar exchange rate rose to reach the lower-SGD 1.36 level on December 18.

After the FOMC meeting in the U.S., the liquidity level in the market declined gradually, as Christmas and the year-end/New Year holidays were starting. On December 23, the CPI of Singapore was announced, and the headline CPI turned out to be +1.6% year-on-year, falling below the market estimate. However, there was little reaction to this announcement in the market. Toward the end of the month, the U.S. dollar/Singapore dollar exchange rate did not move in any particular direction, and in the end, the U.S. dollar/Singapore dollar exchange market closed trading in December at the mid-SGD 1.36 level.

## 2. Outlook for This Month

The U.S. dollar/Singapore dollar exchange rate is forecast to remain high and stable in January.

The FOMC is scheduled to hold meeting also in January. According to the dot plot released in December, the total number of expected policy interest rate cuts in the U.S. for this fiscal year is two. Thus, under the current situation, it is more likely for the FOMC to postpone the policy interest rate cut at the next meeting. Furthermore, Donald Trump will become President of the U.S. after the presidential inauguration scheduled for January 20. Given the uncertainty over the politics in the U.S., market participants are advised to pay attention to the remarks to be made by Federal Reserve Board (FRB) Chair Jerome Powell regarding the management of monetary policy for this fiscal year.

In terms of factors related to Singapore, the Monetary Authority of Singapore (MAS) is scheduled to have a monetary policy meeting in January as well. At its October meeting, the MAS decided to maintain the existing monetary policy for the sixth consecutive time, stating that the current monetary policy had been at an appropriate level. Thus, the monetary policy of Singapore has not been revised since October 2022. Also, the November CPI of Singapore that was recently released was +1.6% year-on-year for the headline CPI and +1.9% year-on-year for the core CPI, both demonstrating a decline. In particular, the core CPI has been at its lowest level in approximately three years. Thus, many market participants believe that it is now more likely for the MAS to consider monetary easing. However, there has so far been no information released by the monetary authorities of Singapore. Given that it is possible for the new policy measures in the U.S. under the next U.S. President, Donald Trump, to impact the economic conditions of Singapore, it is likely for the MAS to maintain its existing monetary policy at its meeting in January.

As discussed above, the pace of policy interest rate cuts in the U.S. is expected to slow down for this fiscal year. Under such a condition, there is no particular reason for market participants to sell the U.S. dollar. As was the case in the previous month, the U.S. dollar/Singapore dollar exchange rate is forecast to fluctuate in accordance with figures in the U.S. economic indices. However, the U.S. dollar/Singapore dollar exchange rate is likely to remain stable in general.

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

# Thai Baht – January 2025

**Expected Ranges** **Against the US$: THB 34.00–35.20**
**Against the yen: JPY 4.45–4.65**

## 1. Review of the Previous Month

In December, many central banks held a monetary policy meeting. Under such circumstances, the U.S. dollar/Thai baht exchange rate remained volatile, although maintaining a certain level of stability.

At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at the lower-THB 34 level. The next U.S. President, Donald Trump, gave strong warning to the BRICS nations that are moving away from the U.S. dollar. Furthermore, market participants sold the overall Asian currencies against the U.S. dollar due to political uncertainty in South Korea. Under such circumstances, the Thai baht depreciated against the U.S. dollar. However, a meeting held in China on December 9 of the Political Bureau of the Central Committee of the Communist Party of China announced principles for China's monetary policy in 2025 that would place focus on more proactive fiscal policy and moderately loose monetary measures. In reaction to the report on this announcement, market participants started to actively buy the Chinese yuan, and this impacted the Thai baht exchange market. As a result, market participants also started to buy the Thai baht, and the U.S. dollar/Thai baht exchange rate fell below the THB 34 level. Thereafter, the November CPI of the U.S. was announced, and the result turned out to be as had been anticipated in the market, which did not cause any fluctuation of the exchange rate. As market participants were expecting the Federal Open Market Committee (FOMC) to cut its policy interest rate in the U.S. at its December meeting, the U.S. dollar/Thai baht exchange rate remained low.

In the middle of the month, on December 18, the central bank of Thailand announced its decision to maintain its existing policy interest rate, as had been anticipated by many market participants. However, there was only limited reaction to this news in the market. Meanwhile, the FOMC meeting held on the same day local time in the U.S. announced a decision to cut the policy interest rate by 25 basis points while decreasing the number of policy interest rate cuts expected in 2025 by half. Because market participants expected a slowdown in the pace of policy interest rate cuts in the U.S., the U.S. dollar/Thai baht exchange rate rose sharply to approach the mid-THB 34 level.

At the end of the month, liquidity levels in the market fell gradually, as the Christmas holidays were approaching. Under such circumstances, the November PCE price index of the U.S. was announced on December 20, and the result turned out to be below the market estimate. As a result, the U.S. dollar/Thai baht exchange rate fell to the lower-THB 34 level. Thereafter, the U.S. dollar/Thai baht exchange rate continued fluctuating at around the same level with low liquidity, and yearly trading closed at this level.

## 2. Outlook for This Month

The U.S. dollar/Thai baht exchange rate is forecast to remain stable in January.

After the FOMC meeting in December, the number of expected policy interest rate cuts in the U.S. in 2025 was halved in the dot plot from four to two, while the outlook for the long-term federal funds interest rate was revised upward from 2.9% to 3.0%. In the FOMC statement, forward guidance also suggested a slowdown in the policy interest rate cuts in the times ahead. In response to this hawkish outcome of the FOMC meeting, market participants suddenly started to consider the end of policy interest rate cuts as a possibility, and they are likely to continue actively buying the U.S. dollar for some time to come.

On the other hand, in the Asian region, pressure to sell Asian currencies persists due to various reasons, not only due to speculation about customs tariffs to be introduced by Donald Trump but also due to uncertainty about the economic outlook in China as well as political confusion in Korea. Thus, the Thai baht may also depreciate against the U.S. dollar following this trend. In terms of monetary policy, the central bank of South Korea cut its policy interest rate twice while also implying the possibility for additional monetary easing based on trade risks under the new Trump administration in the U.S. In China, the Political Bureau of the Central Committee of the Communist Party of China announced a monetary policy principle to place a focus on monetary easing. Thus, it has been clear that some central banks plan to cut their policy interest rates in the times ahead, and monetary easing has been justified. This situation has been strengthening downward pressure on the currencies of emerging countries in Asia. Under such circumstances, the government of Thailand requested the central bank of Thailand to cut the policy interest rate again, as was done at the previous monetary policy meeting. However, the central bank of Thailand decided to maintain its existing policy interest rate at its meeting held in December. In the times ahead, it is likely for the friction between the government and the central bank to intensify in Thailand, while the number of expected policy interest rate cuts is likely to increase in the market (and this would be a negative factor for the Thai baht).

Given the above factors, the U.S. dollar/Thai baht exchange rate is forecast to remain high and stable. However, market participants are advised to remain attentive, as the foreign exchange market may experience violent fluctuations if the next Trump administration decides to raise customs tariffs significantly, prompting other countries to take retaliatory measures.

Kazuhiro Suzuki, Mizuho Bank (Malaysia) Berhad

# Malaysian Ringgit – January 2025

**Expected Ranges** **Against the US$: MYR 4.4000–4.5500**
**Against the yen: JPY 34.00–35.70**

## 1. Review of the Previous Month

In December, the U.S. dollar/Malaysian ringgit exchange rate fluctuated in both directions. As of December 27, the Malaysian ringgit depreciated slightly against the U.S. dollar compared to the end of November. However, in general, the U.S. dollar/Malaysian ringgit exchange rate did not move significantly.

At the beginning of the month, the U.S. dollar appreciated, as market participants were concerned about the potential introduction of additional customs tariffs on China by the next U.S. President, Donald Trump. However, Federal Reserve Board (FRB) Chair Jerome Powell made a positive remark about the U.S. economy thereafter, while the market started to increasingly reflect an expected policy interest rate cut in the U.S. in December. Thus, the U.S. dollar/Malaysian ringgit exchange rate remained near the MYR 4.42 level—the monthly low—for a while.

In the middle of the month, the November Consumer Price Index (CPI) of the U.S. was announced, and the result turned out to be at the same level as the market estimate. However, interest rates in the U.S. started to rise thereafter, as market participants were concerned about the resurgence of inflation in the U.S., based on a remark by the next U.S. President, Donald Trump, about corporate tax cuts. As a consequence, the U.S. dollar appreciated against many other currencies. Furthermore, on November 18 local time in the U.S., the outcome of the Federal Open Market Committee (FOMC) meeting in December was announced, and the policy interest rate was cut by 25 basis points, as had been an expected in the market. However, the outcome was generally hawkish, as the policy interest rate outlook was revised upward. Meanwhile, FRB Chair Jerome Powell made a comment pointing out that the policy interest rate was close to the neutral interest rate. As a consequence, the U.S. dollar index rose and approached the highest level observed since November 2022, during which the U.S. was right in the middle of a phase of policy interest rate hikes. Under such circumstances, the overall Asian currencies depreciated against the U.S. dollar. Following this trend, the Malaysian ringgit depreciated against the U.S. dollar as well, and the U.S. dollar/Malaysian ringgit exchange rate quickly exceeded the MYR 4.50 level, reaching the mid-MYR 4.51 level.

At the end of the month, many market participants went on Christmas and year-end holidays after the key events of the month. Under such a condition, the appreciation of the U.S. dollar slowed down, as the market had already reflected the outcome of the FOMC meeting in the U.S. After the Christmas holidays, there were some exporters carrying out transactions, based on which the U.S. dollar/Malaysian ringgit exchange rate fell temporarily to the MYR 4.46 level. However, on December 27, the U.S. dollar/Malaysian ringgit exchange rate returned to the MYR 4.47 level again. It is also worth noting that, based on the rate of return since the beginning of the year, the Malaysian ringgit recorded its most significant appreciation against the U.S. dollar in 2024, partly because the Malaysian ringgit was particularly weak against the U.S. dollar at the beginning of the year.

## 2. Outlook for This Month

The U.S. dollar has been expected to remain strong at the beginning of 2025, and the U.S. dollar/Malaysian ringgit exchange rate is forecast to be high and stable in January.

In terms of domestic factors, the preliminary figure for the fourth-quarter GDP of Malaysia is scheduled to be out in January. Furthermore, the first monetary policy committee meeting in 2025 is also scheduled in January. With regard to the GDP of Malaysia, the figures have been confirmed up to the third quarter. Since then, the trade statistics have demonstrated further growth in exports in October and November, and this is likely to be based on last-minute transactions before the start of the new administration under the next U.S. President, Donald Trump. Because exports are on a healthy rise, which is likely to support the Malaysian economy, annual economic growth is highly likely to exceed 5%. This is a positive factor for the Malaysian ringgit. However, it is also true that the inauguration of the next U.S. President, Donald Trump, is approaching. It is likely that Donald Trump will make another remark about customs tariffs and tax cuts before and after the inauguration. Thus, even if market participants are aware of the remarkable growth of Malaysian economy, it would not be enough to offset the negative impact on the currencies of emerging countries as resulting from the expected introduction of additional customs tariffs and tax cuts for corporations in the U.S., which has been fueling concerns over expanding fiscal deficits as well as rising interest rates in the U.S.

Market participants are also advised to remain careful about next actions by the FRB, as its recent policy interest rate cut was seen as hawkish in the market. After the FOMC meeting held in December, FRB Chair Jerome Powell made a comment to point out that the federal funds interest rate in the U.S. was approaching the neutral interest rate. If this comment is interpreted literally, it is unlikely for the FOMC to cut its policy interest rate additionally at its January meeting. The large part of the monetary market has not reflected a further policy interest rate cut in January either, which is another factor to keep the U.S. dollar from depreciating in the coming month.

In January, market participants in many countries remain cautious, as the second administration under Donald Trump will start. Under such circumstances, it is difficult to expect market participants to buy the Malaysian ringgit only based on healthy economic growth. Therefore, the U.S. dollar/Malaysian ringgit exchange rate is forecast to remain high and stable in January.

Masayuki Tsunashima, Asia & Oceania Treasury Department

# Indonesian Rupiah – January 2025

**Expected Ranges** **Against the US$: IDR 15,700–16,300**
**Against the yen: JPY 0.9400–0.9800 (IDR 100)**

## 1. Review of the Previous Month

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

At the beginning of the month on December 2, the U.S. dollar/Indonesian rupiah exchange market opened trading at the lower-IDR 15,900 level. Thereafter, the next U.S. President, Donald Trump, stated that he would impose 100% tariffs on several countries given that emerging countries were moving away from the U.S. dollar. In reaction, the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 15,900 level on December 4. However, market participants adjusted their positions subsequently, as the November employment statistics of the U.S. were to be out on November 6. Thus, the U.S. dollar/Indonesian rupiah exchange rate returned to the mid-IDR 15,800 level. Yet, on December 9 in the following week, interest rates in the U.S. started to rise, strengthening pressure to buy the U.S. dollar. As a result, the Indonesian rupiah depreciated gradually against the U.S. dollar. On December 13, the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 16,000 level, which is a psychological turning point. Under such circumstances, the central bank of Indonesia released a comment that it would intervene in the foreign exchange market very vigorously. However, there was only minimal reaction to this comment in the market, and the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 16,000 level on December 16. While the U.S. dollar continued to strengthen, the central bank of Indonesia held a monetary policy meeting on December 18 and decided to maintain its policy interest rate at the existing level. However, market participants did not react to this decision in any remarkable way either. On the same day local time in the U.S., the Federal Open Market Committee (FOMC) released its outlook such that the pace of policy interest rate cuts would slow down in 2025, and this strengthened pressure to buy the U.S. dollar further. As a consequence, the U.S. dollar further appreciated against the Indonesian rupiah, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 16,200 level on December 19, the following day. On December 20, the Indonesian rupiah rallied slightly against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate returned to the lower-IDR 16,200 level. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range between the upper-IDR 16,100 level and the lower-IDR 16,200 level. Toward the end of the month, the U.S. dollar/Indonesian rupiah exchange rate returned to the lower-IDR 16,100 level, at which level monthly trading closed.

## 2. Outlook for This Month

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

The appreciation of the U.S. dollar is expected to slow down gradually in the times ahead, as positive factors for the U.S. dollar have now already been reflected in the market, such as the victory of Donald Trump at the U.S. presidential election as well as the slowdown of policy interest rate cuts in the U.S.

The central bank of Indonesia maintains a principle to prioritize stability in the Indonesian rupiah exchange market. In December, the central bank of Indonesia made a comment that it would intervene in the foreign exchange market very vigorously, which shows that the central bank is highly concerned about the depreciation of the Indonesian rupiah. It is also worth noting that the December Consumer Price Index (CPI) of Indonesia was announced on December 2, and the result turned out to be +1.57% year-on-year, approaching the lower end of the target inflation range set out by the central bank, as was also the case in November. Having witnessed this situation, the central bank of Indonesia must be considering further policy interest rate cuts. However, in order to cut the policy interest rate further, the central bank needs to strengthen the Indonesian rupiah so that the policy interest rate cut will not cause further depreciation of the Indonesian rupiah. From this point of view as well, the central bank of Indonesia is likely to intervene in the foreign exchange market more vigorously than usual to control the appreciation of the U.S. dollar against the Indonesian rupiah that is currently observed.

Furthermore, the November trade balance of Indonesia turned out to be a surplus of more than USD 4.4 billion, reaching the highest level since March 2024. This indicates that pressure to sell the Indonesian rupiah is weakening also from the viewpoint of supply & demand. Thus, thanks to the effort made by the Indonesian monetary authorities to stabilize the Indonesian rupiah exchange market as well as the improvement in the supply & demand balance, the Indonesian rupiah is forecast to strengthen against the U.S. dollar in January, partially offsetting the depreciation observed in December.

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

# Philippine Peso – January 2025

**Expected Ranges** **Against the US$: PHP 57.00–59.00**
**Against the yen: PHP 0.365–0.385**

## 1. Review of the Previous Month

**In December, the U.S. dollar/Philippine peso exchange rate fluctuated at the lowest level for the Philippine peso in the year.**

In December, the U.S. dollar/Philippine peso exchange market opened trading at PHP 58.66. Market participants were divided in their views on whether the Federal Open Market Committee (FOMC) would cut its policy interest rate at its December meeting scheduled for the middle of the month. Under such circumstances, Federal Reserve Board (FRB) officials made comments to suggest a policy interest rate cut, which led market participants to change their view on the market outlook. As a consequence, the U.S. dollar/Philippine peso exchange rate fell quickly from the upper-PHP 58 level to the upper-PHP 57 level. Thereafter, November price statistics were released with more or less expected figures (+2.5% year-on-year, while the market estimate was +2.5% year-on-year and the previous month's result was +2.3% year-on-year, and +0.4% from the previous month, while market estimate was +0.3% and the previous month's result was +0.2%). However, the central bank of the Philippines only commented at a press conference that it would continue monetary easing, taking these figures into account. Because the central bank of the Philippines did not make any specific comment about its clear intention to cut its policy interest rate, market participants grew uncertain about whether the policy interest rate would be cut in December. As a consequence, the Philippine peso depreciated further against the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate reached PHP 59 again—the lowest level for the Philippine peso in the year, as was the case in November. The U.S. dollar/Philippine peso exchange rate remained at this level until the monetary policy meeting was held at the central bank of the Philippines.

Toward the middle of the month, monetary policy meetings were held in Japan, the U.S., and the Philippines, and the future outlook for policy interest rates was provided in each country. In both the U.S. and the Philippines, the pace of policy interest rate cuts is expected to slow down. Furthermore, the central bank of the Philippines expressed concerns about the depreciation of the Philippine peso against the U.S. dollar that is currently observed in the market, giving warning to market participants.

Consequently, at the end of the month, the Philippine peso started to appreciate against the U.S. dollar gradually. Market participants increasingly bought the Philippine peso toward the end of the month. In the end, the U.S. dollar/Philippine peso exchange market closed trading for the year, fluctuating in both directions at around the PHP 58 level.

## 2. Outlook for This Month

**The U.S. dollar/Philippine peso exchange rate may reach PHP 59—the all-time low for the Philippine peso,**

**again in January.**

In the second half of December, the central bank of the Philippines made a comment to suggest that it would continue monetary easing if economic indices remain within expected range in the times ahead. However, at the same time, the central bank of the Philippine stressed that it had not yet decided whether it would cut its policy interest rate at the first monetary policy meeting in 2025 scheduled for January. Previously, the central bank of the Philippines planned to cut its policy interest rate by 1% in total in 2025, and market participants expected the policy interest rate to be continuously cut during the first half of the year. Furthermore, the central bank of the Philippines expects inflation pressure to strengthen from the second half of 2025 toward 2026, and December price statistics are to be released at the beginning of January. Depending on the outcome, the central bank is likely to decide whether or not to cut the policy interest rate, which may impact the U.S. dollar/Philippine peso exchange market during the beginning of 2025. Because the Philippine peso appreciated rapidly against the U.S. dollar at the end of 2024, the U.S. dollar/Philippine peso exchange rate is not likely to rise significantly. However, upward pressure on the U.S. dollar and downward pressure on the Philippine peso are expected to be strong, as the next policy interest rate cut in the U.S. is now likely to be later than initially anticipated. Under such circumstances, the U.S. dollar/Philippine peso exchange rate is most likely to approach PHP 59 again—the all-time low for the Philippine peso.

In terms of potential risks in the market, market participants are advised to closely follow comments made by the next U.S. President, Donald Trump, ahead of the inauguration of his new administration, as his comments about new policy measures may affect the U.S. dollar/Philippine peso exchange market.

At the beginning of January, the economic indices of both the U.S. and the Philippines will be out and are likely to impact the U.S. dollar/Philippine peso exchange market. Thus, market participants are also advised to expect the U.S. dollar/Philippine peso exchange rate to move significantly in both directions between the upper and lower ends of the fluctuation range, as was the case in December.

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

# Indian Rupee – January 2025

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|---|---|
| **Expected Ranges** | **Against the US$: INR 84.60–86.50** |
| | **Against the yen: JPY 1.77–1.91** |

## 1. Review of the Previous Month

**In December, the Indian rupee renewed its lowest exchange rate against the U.S. dollar.**

At the beginning of the month, the U.S. dollar/Indian rupee exchange market opened trading at the mid-INR 84 level. The U.S. dollar/Indian rupee exchange rate continued fluctuating within a narrow range at this level during the first part of the month. Thereafter, however, the Reserve Bank of India (RBI) made a comment that it would expand measures to increase capital inflow, which led market participants to adjust their positions. On the other hand, from the middle to the end of the month, upward pressure on the U.S. dollar strengthened, which gradually weakened the Indian rupee. As a result, the U.S. dollar/Indian rupee exchange rate exceeded the INR 85 level, renewing the lowest exchange rate for the Indian rupee against the U.S. dollar. Because the RBI intervened in the foreign exchange market to keep the U.S. dollar/Indian rupee exchange rate from rising further by selling the U.S. dollar and buying the Indian rupee, the Indian rupee did not depreciate further. In the end, the U.S. dollar/Indian rupee exchange market closed trading at the lower-INR 85 level (as of December 19).

Then, the BSE SENSEX opened trading in December at the lower-79,000 level. Thereafter, the index rose gradually and recovered to the 80,000 level. Subsequently, the index remained flat at around the 82,000 level. However, toward the end of the month, market participants adjusted their positions, and the index fell below the 80,000 level, at which level trading closed (as of December 19). In terms of investment capital inflow from foreign investors into the Indian stock market, there was a net buy in December on a single-month basis. Market participants are thus advised to continue carefully observing whether there will be a constant net buy in the times ahead.

In terms of economic indices in India, the November Purchasing Managers' Index (PMI) for the manufacturing and service industries recorded negative growth from the previous figure. Then, at its meeting held in December, the monetary policy committee (MPC) decided to maintain its policy interest rate at the existing level (6.50%) for the 11th consecutive time, maintaining a neutral monetary policy stance. On the other hand, the deposit reserve requirement ratio was cut by 0.5% to 4.0%, while the November Consumer Price Index (CPI, year-on-year) turned out to be +5.48% with a decline from the previous figure, which was +6.21%. Regarding November trade statistics, the trade deficit expanded. With a constant trade deficit, the Indian rupee remains a weak currency.

## 2. Outlook for This Month

**The U.S. dollar/Indian rupee exchange rate is forecast to fluctuate around the INR 85 mark in January.**

After renewing the lowest exchange rate for the Indian rupee, the U.S. dollar/Indian rupee exchange rate is forecast to fluctuate at around the INR 85 mark in January. The RBI is seen to be keeping the Indian rupee from depreciating further against the U.S. dollar through foreign exchange market interventions to keep the U.S. dollar/Indian rupee exchange rate from rising. Because the RBI is expected to continue its market intervention, the U.S. dollar/Indian rupee exchange rate is not likely to fluctuate violently. Some media outlets report that the RBI instructed multiple banks to cut long positions (to buy the U.S. dollar and to sell the Indian rupee), thus the U.S. dollar/Indian rupee exchange rate is expected to remain low while market participants adjust their positions. However, it is also important to note that there may be transactions based on actual demand when the U.S. dollar/Indian rupee exchange rate is around the INR 85 level and that the RBI may occasionally intervene in the foreign exchange market to keep the U.S. dollar/Indian rupee exchange from falling further by buying the U.S. dollar and selling the Indian rupee.

At the MPC meeting held in December, the policy interest rate in India was maintained at the existing level of 6.50%, and the monetary policy stance remained neutral. However, there were two votes for a policy interest rate cut, and the RBI is expected to start cutting its policy interest rate in the times ahead. However, inflation has not been fully under control, and the then-governor of the RBI, Shaktikanta Das, admitted that the last mile of disinflation had been prolonged and arduous, while the inflation outlook by the RBI was raised. Thus, it is possible for the RBI to delay its policy interest rate cut until the middle of 2025.

In December, there as a net sell both in the stock and bond markets in India, showing that investment capital inflow into India has been gradually increasing. After the policy interest rate cut in the U.S., the Indian rupee was expected to appreciate against the U.S. dollar based on U.S. dollar-selling. However, market participants did not sell the U.S. dollar as much as originally expected, which may reverse the trend, leading the U.S. dollar to rally. The Indian rupee is most likely to start gradually depreciating against the U.S. dollar in the times ahead based on foreign exchange market interventions by the RBI to keep the U.S. dollar/Indian rupee exchange from falling excessively with the appreciation of the Indian rupee, as well as outflow (selling the Indian rupee) based on actual demand. However, if the Indian rupee continues to renew its lowest exchange rate against the U.S. dollar, the RBI is likely to intervene in the foreign exchange market to keep the U.S. dollar/Indian rupee exchange rate from rising excessively to slow down the trend.

This report was prepared based on economic data as of December 31, 2024.
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