

Mizuho Dealer's Eye

June 2019

U.S. Dollar	1	Chinese Yuan	20
Euro	4	Singapore Dollar	23
British Pound	7	Thai Baht	26
Australian Dollar	9	Malaysian Ringgit	29
Canadian Dollar	11	Indonesian Rupiah	32
Korean Won	13	Philippine Peso	35
New Taiwan Dollar	15	Indian Rupee	38
Hong Kong Dollar	17		

Mizuho Bank, Ltd.

Forex Department

Kazuhiro Takeuchi, Forex Sales, Forex Department

U.S. Dollar – June 2019

Expected Ranges**Against the yen: JPY106.50–110.50**

1. Review of the Previous Month

Trading was thin on the ground at the start of May owing to a 10-day holiday in Japan. As the focus shifted back to the possibility of a flash crash, concerns about yen bullishness rose at the beginning of the month, though the dollar/yen pair remained deadlocked overall to only make small movements. The yen was then bought as growing concerns about US/China trade frictions led to risk aversion, with market participants testing the lower edge of the pair's range toward mid-May. Though it recovered to the mid-110 yen mark for a time, it subsequently dipped below 109 yen to hit the lower-108 yen level toward the end of the month on mounting concerns about an economic slowdown and deteriorating US/China relations.

On May 5, President Trump said he was minded to lift the tariff on \$200 billion of Chinese imports from 10% to 25%, with the currency pair then moving below the previous day's closing price when trading began during Asian time on May 6. With China stocks and US stock futures also sliding, the pair temporarily fell to 110.29 yen. There was some short covering on news that China would be sending a delegation on the US, but the comeback was limited. As risk sentiments worsened on bearish US stock movements, the dollar/yen pair dipped below the psychologically-important 110 yen barrier for the first time in six weeks to hit 109.47 yen. Its subsequent rally was also muted, with the pair moving heavily in the 110 yen range. Uncertainty continued to linger after US/China trade talks failed to reach an agreement. On May 13, China announced it was hitting US imports with a retaliatory 25% tariff. As risk aversion intensified, the yen was bought and the pair temporarily hit a low of 109.02 yen.

Yen buying then eased off and the pair's downside edged higher. News then emerged that President Trump would be delaying a decision about further tariffs on automobile imports by up to six months. With the US also releasing some healthy Housing Starts data for April and a buoyant Philadelphia FRB Manufacturing Index for May, the pair rallied to the 110 yen mark. With reports on May 21 also suggesting the US would be postponing some of the sanctions due to be levied on a major Chinese telecommunications company, the pair climbed to 110.67 yen amid short covering. The pound then soared when UK prime minister Theresa May proposed holding another Brexit referendum. This factor also supported the dollar/yen pair. The pair's stay at this level was short-lived, though. The US then released some bearish major economic indicators, including the May Markit Manufacturing PMI and Services PMI and the April New Homes Sales figure. The US then slapped further tariffs on Mexican imports at the end of May. Meanwhile, China hinted it might impose restrictions on rare earth exports

while putting together a list of foreign companies that have damaged the profits of Chinese firms. All this led to a surge in risk-evasive yen buying, with the dollar/yen pair temporarily dropping to 108.28 yen.

2. Outlook for This Month

The dollar/yen pair will continue to be swayed by headlines in June as investors test the lower edge of its range. The biggest factor for the pair right now is the US/China trade dispute. Things cooled down for a time mid-May after a rupture in trade talks was avoided, but concerns about the situation are now rising again. With the US placing a general prohibition on doing business with Huawei, a major Chinese telecommunications company, China has hinted it might impose restrictions on rare earth exports while China's Ministry of Commerce might issue a list of foreign companies that have damaged the profits of Chinese firms. With US/China trade frictions intensifying, risk appetite is likely to be subdued for the time being. The US has also toughened its protectionist stance through the imposition of new tariffs on Mexico, for example. The dollar/yen pair will trade with an eye on various factors, with market participants likely to test its downside.

A glance at trends involving risk assets reveals that US stocks moved bearishly in May on concerns about US/China trade frictions. Employment is growing steadily in the US, though, with a bullish earnings environment helping to underpin consumer spending. Though consumer sentiments are moving firmly, business conditions have deteriorated slightly, particularly when it comes to manufacturing. Some new factors will be needed before the US revises its monetary policy, but the markets will probably move to price in a further rate cut. Further potential risk factors include: growing signs of a Chinese economic slowdown; increased tensions in the Middle East; the political situation in Italy and elsewhere in Europe; and a further global shift in the direction of protectionism after the US slapped new tariffs on Mexican goods. Given all these negative factors, market participants should focus on the tail risk of momentary attempts on the dollar/yen pair's downside.

On the flow side, though, there remains hearty demand for 'buying on the dip,' particularly when it comes to importers and Japanese institutional investors. This trend is apparent in the way direct foreign investment has remained at high levels. As such, the yen is likely to continue facing selling pressure when the currency pair weakens. The settlement results of Japanese firms also suggest substantial funds have continued to flow out of Japan, just as they did over the last fiscal year, with this trend likely to continue for the time being.

Based on the above, it seems there are a number of latent factors capable of pushing the yen higher. However, there is strong appetite for buying on the dip among Japanese real-demand investors and institutional investors. With the G20 also scheduled to meet in June, the markets are likely to slip further into wait-and-see mode on the whole. As such, market participants look set to test the lower edge of the dollar/yen pair's range this month.

Dealers' Market Forecast

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

Bullish on the dollar (1 bull: 107.50–112.50, Core: 107.50–112.50)

Harada	107.50 – 112.50	The US fundamentals have posted some mixed economic results. With US stock markets continuing to trade at highs, though, the dollar/yen pair's room on the downside will still be capped. The FOMC will be meeting in June and there is a tail risk that it could swing in an unexpectedly dovish direction, so caution will be needed.
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Bearish on the dollar (9 bears: 106.50–111.50, Core: 107.00–111.00)

Takeuchi	106.50 – 110.50	The markets might price in an economic slowdown in the US and China, for example. Speculation is rising about further rate cuts, so the dollar/yen pair's upside will be capped as market participants watch to see how low long-term interest rates can go. However, there will be hearty demand for buying on the dip by Japanese investors and so on, so the pair is unlikely to undergo a one-sided slide.
Kato	107.00 – 111.00	It is hard to imagine anything drastic happening during this month's G20 meeting and US/China trade talks, but given the difficulties involved in repairing US/China relations, it seems the yen will remain susceptible to appreciatory pressures on risk aversion.
Seki	107.00 – 111.00	Business confidence has deteriorated on the US/China trade dispute. With concerns rising about the future, stocks will remain bearish and US interest rates will continue to trend lower. The dollar/yen pair's movements are strongly correlated to Japanese/U.S. interest-rate differentials. It is starting to look like the benchmark yield on 10-year US treasuries will drop below 2%, so the currency pair is unlikely to rise higher this month.
Mitsubishi	107.00 – 111.00	The market mood is shifting sharply in the direction of risk aversion on US/China trade frictions and the Brexit problem. Europe's fiscal problems have also flared up again and it seems they will drag on into the long term. As a result, the dollar/yen pair looks set to trade with a heavy upside.
Okamoto	107.50 – 111.50	There are still some hopes about the G20 meeting, but sentiments look set to remain in the doldrums as the US/China trade dispute drags on. Investors might focus further on the deleterious impact on the real economy depending on the results of economic indicators. If the FOMC moves to normalize currently-low interest rates, the dollar will probably be sold across the board on risk aversion.
Ueno	107.50 – 111.00	Risk aversion is spreading across the globe. At the center of this trend are deteriorating US/China trade relations and the interminable Brexit problem. The G20 meeting and other events are looming in June, but right now it seems these events will only invite disappointment. Market participants may try pushing the pair back to around the 2019 low it hit at close of trading on January 3.
Tamai	107.50 – 111.00	With no high-level meetings penciled in, there is unlikely to be any progress in the US/China trade dispute until the two sides meet at the G20 meeting at the end of the month, so the markets are likely to remain in risk-off mode. The FOMC could voice concerns about inflation given the intractable US/China trade frictions, so the dollar/yen pair will probably move with a heavy upside this month.
Moriya	107.00 – 111.00	Amid lingering concerns about the direction of the US/China trade dispute, risk sentiments are unlikely to improve in the near future. The FOMC is expected to remain in dovish mode when it meets this month, so US interest rates are not expected to rise. As such, the dollar/yen pair's upside will probably edge lower this month.
Okuma	107.00 – 111.00	There are no signs of the US/China trade dispute being resolved any time soon. With the US also slapping new tariffs on Mexico, there are concerns that trade frictions might lead to a global economic slowdown. As US long-term interest rates trend lower, the markets are starting to factor in an FRB rate cut within the year, so the dollar/yen pair's downside looks set to edge lower this month.

Tomohisa Ueno, Forex Sales, Forex Department

Euro – June 2019

Expected Ranges

Against the US\$: US\$1.0950–1.1250**Against the yen: JPY119.00– 124.00**

1. Review of the Previous Month

The euro/dollar pair's downside edged lower over the latter half of May. The pair opened the month trading at the lower-\$1.12 mark on May 1. The US then released some weak economic indicators, while the inflation outlook was downgraded in the FOMC's statement. As dollar selling intensified, the pair climbed to a monthly high of \$1.1265. In his subsequent press conference, though, FRB chair Jerome Powell said falling inflation was only due to transitory factors, so the pair then plummeted to the upper-\$1.11 level. The pair traded without any major sense of direction over May 2, though the greenback was bought and the pair's downside fell to the lower-\$1.11 mark on May 3 on the release of some bullish US employment data for April.

The European Commission downgraded its GDP forecast when it met on May 7. With US stocks also falling sharply, the euro/yen pair tumbled to the 123 yen range. From May 6–9, though, the euro/dollar pair traded without a sense of direction around \$1.12. The dollar was sold and the pair climbed to the mid-\$1.12 level on May 10 on the weak results of the US CPI data for April.

The dollar was also sold on May 13 after China announced some retaliatory sanctions, so the pair rose to the mid-\$1.12 mark once more, though it failed to renew its high for the month. As concerns about Italy's finances grew on May 14, the pair tumbled to the lower-\$1.12 level. With a risk-off mood prevailing on May 15, the euro/dollar pair was dragged down by the euro/yen pair to temporarily hit the upper-\$1.11 mark. It bounced back to the \$1.12 range for a time, though it fell to the mid-\$1.11 level on May 16 when the greenback was bought on the bullish results of some US economic indicators together with rising US interest rates.

The pair then moved with a heavy topside at the mid-\$1.11 mark on May 17–18 and May 20. The likelihood of a second Brexit referendum rose on May 21 when news emerged that UK prime minister Theresa May would announce a new proposal about a Brexit deal. The pound/dollar pair rose as a result, with the euro/dollar pair also climbing to the upper-\$1.11 level, though it soon dropped back to the mid-\$1.11 range. The pair edged lower over May 22–23. With the eurozone then releasing some bearish economic indicators, the pair hit a monthly low of \$1.1106 for a time on May 24.

However, the dollar was then sold, so the pair strengthened to the lower-\$1.12 mark toward May 27. The euro was sold from May 28 on reports about Theresa May's resignation together with growing concerns about Italy's finances. As a result, the pair fell to the lower-\$1.11 level toward May 30. It then moved at the mid-\$1.11 mark on May 31.

2. Outlook for This Month

When surveying the overall market, the most eye-catching thing is the way funds have been flowing to safe assets. The biggest risk factors these past few months have undoubtedly been the US/China trade spat and Brexit. As for the former, tit-for-tat tariff hikes have eventually led to the US sanctioning Huawei, a major Chinese telecommunications firm, with China then threatening to place restrictions on rare metal exports. This situation shows no signs of cooling off. With this problem becoming a long-term concern, a bearish Chinese economic indicator released on May 31 pointed to a downswing in activity, with fears also rising about a slowdown in the real economy. In the US, meanwhile, the markets are factoring in a policy rate cut. With the US also hitting Mexico with new tariffs and with uncertainty growing about economic trends, market participants will need to remain on guard against downside risks.

As for Brexit, with the end-of-October withdrawal deadline fast approaching, UK prime minister Theresa May announced on May 24 that she would be stepping down. It seems likely that a hardline Brexiteer will fill her shoes, but recent opinion polls have been topped by smaller Remain-supporting parties, for example, so it is hard to imagine a consensus forming in the UK. Furthermore, the economies of the UK and EU both remain in the doldrums. The Brexit issue and these concerns about the economy are unlikely to disappear any time soon.

When global risk aversion intensifies, funds always flow from stocks to bonds and from emerging economies to developed nations. Given Brexit and the recent revival of concerns about Italy's finances, it is hard to imagine the euro being preferred over the dollar or yen. With several risk factors smoldering away within Europe, the euro/dollar pair and the euro/yen pair look set to continue moving bearishly.

Dealers' Market Forecast

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

Bullish on the euro (1 bull: 1.1000–1.1300, Core: 1.1000–1.1300)

Kato	1.1000 – 1.1300	The euro/dollar pair will probably move with a heavy topside at the start of June on political risk, but as this risk recedes, speculative attempts on the pair's downside will also ease off, with the euro then bought on Europe's trade surplus due to a lack of any other alternatives.
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Bearish on the euro (9 bears: 1.0800–1.1300, Core: 1.0900–1.1300)

Takeuchi	1.0900 – 1.1300	The eurozone faces rising political risk in Italy and so on. The economic situation, monetary policy and other fundamentals also suggest any euro buying will be capped. The risk lies in some quick selling to lock in profits or some position adjustments if the markets rush to price in a euro slide.
Seki	1.0900 – 1.1200	The European Commission will be reassessing Italy's fiscal stance on June 5, but there seems to be no shortage of euro-selling factors given moves after the European Parliament elections and the political risk plaguing several eurozone countries. Speculative selling looks set to continue for a while as global economic conditions deteriorate, so the euro will probably fall further this month.
Mitsubishi	1.0800 – 1.1300	There are a number of worrisome factors. The eurozone economy continues to move sluggishly, for example, while euro-skepticism is on the rise and Italy's fiscal problems have reared up again. The risk of a no-deal Brexit has also risen now that UK prime minister Theresa May has announced her resignation, with the eurozone facing troubles at home and abroad.
Okamoto	1.1000 – 1.1300	It seems political uncertainty is here to stay given Brexit, Italy's finances, and moves after the European Parliament elections. The fundamentals also appear moribund, so the euro/dollar pair is likely to continue edging lower this month. However, the US economy also seems to be slowing. Under these circumstances, the greenback is unlikely to be bought in volume, so the currency pair is not expected to fall sharply.
Ueno	1.0950 – 1.1250	There are no signs of an exit from monetary easing. With the economy also moving weakly, moves to actively buy the euro are likely to be capped. There remain several risk factors that appear resistant to any short-term solution, such as Brexit and the Italian fiscal problem. As such, the risk for the euro will probably remain on the downside, so caution will be needed.
Harada	1.0900 – 1.1300	Given the bearish economy and lingering uncertainty related to Brexit, the euro will be a hard currency to actively buy. The euro/dollar pair's topside will also be capped by the rise of the far right and populism. The stock prices of German banks have also fallen to record lows in the wake of failed merger talks involving Commerzbank, so investors should be on guard against the risk of a default in this area.
Tamai	1.0950 – 1.1300	There are growing concerns about Italy's finances and political risk related to Brexit, etc. With the eurozone's economic indicators still moving sluggishly, it seems the euro/dollar pair will move with a heavy topside this month. The eurozone's economic indicators seemed to be improving at one time, but they have weakened again. With ECB officials also continuing to make dovish statements, the currency pair look set to move bearishly this month.
Moriya	1.0900 – 1.1300	The eurozone's economic indicators have noticeably deteriorated, so the ECB will probably remain in dovish mode for the time being. With the markets focused strongly on political risk related to Italy and Brexit, for example, investors should remain on the guard against the risk of a euro downswing.
Okuma	1.0900 – 1.1300	The eurozone political situation is growing more tumultuous given Italy's fiscal problems and the success of populist parties in the European Parliament elections. With China's economy also slowing, a European economic recovery looks some way off. The likelihood of a no-deal Brexit has also risen after UK prime minister Theresa May announced her resignation. This will also weigh the euro down, with the euro/dollar pair set to continue moving bearishly this month.

British Pound – June 2019

Expected Ranges	Against the US\$:	US\$1.2500–1.3100
	Against the yen:	JPY135.00–144.00

1. Review of the Previous Month

The pound fell in May.

It began the month moving firmly. The Bank of England (BOE) kept monetary policy fixed when it met on May 2, though it upgraded its growth forecast, so the pound was bought for a time, though it was sold again soon after. With the Conservatives and the Labour Party both losing seats in local elections held on May 2, the Labour leader Jeremy Corbyn indicated he would be willing to hold talks with UK prime minister Theresa May. As a result, sterling was bought on May 3 and the pound/dollar pair rallied to the \$1.31 range, with the pair then hitting a monthly high of \$1.3190 during a UK holiday on May 6.

The pound weakened when the holiday ended on May 7, with the currency pair subsequently dropping down below \$1.31. The UK Q1 GDP result was released on May 10. Growth was up +0.5% on the previous quarter, but this was largely because firms were building up inventories before Brexit, so the result had minimal impact on the pair. On May 13, China announced some retaliatory tariffs on US goods. This led to some textbook risk aversion. Stocks and crude oil were sold and gold bought, with the pound also trending downward.

The UK unemployment rate for March was released on May 14. At 3.8%, the rate hit a 44-year low, though the reaction of the markets was negligible. Sterling was then dragged lower by a bearish euro after Italy's deputy prime minister said Italy might breach the EU's rules on fiscal discipline. On May 15, Mrs. May announced plans to make a decision on Brexit in early June. The euro rose later in the day after President Trump said he would be delaying a tariff hike aimed at automobile imports from the EU. On May 16, Mrs. May held talks about the timing of her resignation with the 1922 Committee, an influential Tory grouping. It seemed the prime minister was ready to put her career on the line by holding a vote on her Brexit proposal early June. The Brexiteer and former foreign minister Boris Johnson then announced he would stand for leader after Mrs. May stepped down. As concerns about a Hard Brexit grew, the pound/dollar pair dropped below \$1.28. Brexit talks between the Conservative and Labour were called off on May 17, with the pair subsequently dropping to its lowest level since January.

In the afternoon of May 21, news emerged that Mrs. May would be making a speech about her Brexit proposal later that evening. As a result, the pair was bought back to the \$1.27 range. This trend continued and the pair hit the \$1.28 range after Mrs. May announced she would give parliament the opportunity to vote on a second referendum. However, this move was conditioned on parliament approving Mrs. May's withdrawal proposal, so sterling was sold again. With speculation about the prime minister's resignation

rising on May 23, the pair fell further to hit a monthly low of \$1.2605. With the US then releasing a worse-than-expected PMI result for May, though, the dollar was sold and the pound bought back. On May 24, Mrs. May announced she would be stepping down on June 7. Concerns grew that the next prime minister might pursue a Hard Brexit. With anti-EU parties also winning big in European Parliament elections, the month ended without any pound buy-backs.

2. Outlook for This Month

The pound is expected to continue trading with a heavy topside in June.

Prime minister Theresa May will be stepping down on June 7 and the race to take her position has officially begun. Various media reports suggest the frontrunner is the former foreign minister Boris Johnson, the man who led the Leave camp in the 2016 referendum, with the markets now growing concerned about a shift in the direction of a Hard Brexit, including the possibility of a no-deal withdrawal. The government's press secretary has said the candidates for the position will be narrowed down at the end of June (11 people had put their names forward as of May 29), with a final decision made late July, before parliament shuts down for summer vacation. As such, dark clouds are forming once again over the Brexit deadline at the end of October. The UK will probably ask the EU for another extension on the grounds of this change of leadership, but it is by no means certain that the EU will agree to such an extension, so the markets will remain on guard against the possibility of the aforementioned no-deal Brexit. These concerns will probably keep a lid on pound buying.

Furthermore, anti-EU parties across Europe did well in the European Parliament elections held at the end of May, with the hardline Brexit Party also acquiring number one spot in the UK. However, parties calling for a second referendum or for the UK to remain in the EU also did well, so at the very least there is no consensus in Britain for a Hard Brexit, let alone a no-deal withdrawal. With the approval ratings of the Conservatives and Labour also plunging, a general election seems unlikely, so even if the next leader of the Tories is a hardline Brexiteer, any sniff of a no-deal Brexit will be met with parliamentary opposition. As such, a general election or a second referendum may yet come to pass. Incidentally, when asked during the last round of indicative votes in April, parliament voted down the idea of a second referendum by just 292 votes to 280. Of course, there has been growing debate since then about the idea of asking the public to vote again, with Mrs. May also mentioning such a possibility (albeit premised on parliament approving her withdrawal proposal), so for now the pound will continue to be bought back at times on headlines related to this issue.

The BOE's Monetary Policy Committee (MPC) will be meeting on June 20. This could have a temporary impact on the pound's movements, but it is hard to see monetary policy shifting until the Brexit details have been hammered out, so the meeting is unlikely to lead to any trend shifts.

Ai Ando, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – June 2019

Expected Ranges	Against the US\$:	US\$0.6800–0.7100
	Against the yen:	JPY73.50–76.50

1. Review of the Previous Month

The AUD/USD pair fell from the mid- $\$0.70$ mark to the lower- $\$0.69$ level last month.

It approached May trading at the mid- $\$0.70$ level. After the FOMC meeting on May 1, expectations for a US rate cut then receded after FRB chair Jerome Powell said the recent fall in inflation was down to transitory factors. This saw the pair dipping to the lower- $\$0.70$ range. News emerged on May 3 that US crude oil inventories had risen to a two-year high. As crude oil prices fell, stocks also moved bearishly and the pair fell to right around $\$0.70$. The US employment data for April was released on May 4. With wages moving sluggishly, the greenback weakened against the other major currencies, with the AUD/USD pair rising to the lower- $\$0.70$ mark.

At the weekend, President Trump talked about raising tariffs on Chinese imports, with reports suggesting US/China trade talks might be called off. This saw the pair tumbling to the upper- $\$0.69$ mark on May 6, though it was then bought back to around $\$0.70$ on news that China would be sending a delegation to the US. Amid growing expectations for rate cuts, the RBA board decided to keep the policy rate fixed when it met on May 7. Australian short-term interest rates rose sharply and the pair temporarily climbed to the mid- $\$0.70$ range, though it then grew heavy on the topside to fall to the lower- $\$0.70$ level. On May 8, the US announced it would be hiking tariffs on Chinese imports from May 10. The pair subsequently fell to the upper- $\$0.69$ mark on news that China might take retaliatory measures. The markets reacted badly to these tit-for-tat tariffs and news that North Korea had launched a missile, with the currency pair dipping for a time on May 9, though the Australian dollar was then bought back on reports about an expected meeting with the Chinese deputy prime minister, with the pair floating in the upper- $\$0.69$ range thereafter.

On May 10, the US hiked tariffs on $\$200$ billion of Chinese imports, but the markets reacted calmly following comments that trade talks would continue, with the pair floating around $\$0.70$. Stock markets continued to fall on May 13 on reports that China had taken retaliatory measures. With the US then announcing plans for a fourth round of tariff hikes on Chinese imports, the pair weakened to the mid- $\$0.69$ level. It then hovered around the mid- $\$0.69$ mark on May 14 amid a dearth of noteworthy factors. The pair was then sold to the lower- $\$0.69$ mark on May 15 after China released a bearish economic indicator. Expectations for a rate cut rose on May 16 after Australia released some unexpectedly-weak employment data, with the pair dipping temporarily to the $\$0.68$ range. With an Australian general election looming at the weekend, the Australian dollar moved bearishly on May 17 on risk adjustment,

with the pair sold to the mid-\$0.68 mark. The general election was held on May 19, with the ruling conservative coalition scoring an unexpected victory. This saw the pair rising to the mid-\$0.69 level on May 20.

The minutes to the RBA board meeting were released on May 21. These roused expectations for a rate cut, as did the contents of a speech by RBA governor Philip Lowe, so the currency pair plunged to the upper-\$0.68 range. It then floated around the upper-\$0.68 mark on May 22 amid a dearth of noteworthy factors. Stocks fell, interest rates dipped, crude oil prices tumbled and the greenback was sold on May 23 on the weak results of a US economic indicator, with the AUD/USD pair bouncing back to the \$0.69 range. Expectations for a US rate hike rose on May 24 on the release of some bearish durable goods orders data, so the pair then climbed to the lower-\$0.69 level. Amid a dearth of factors, the pair then hovered with a lack of incentives around the lower-\$0.69 level toward the end of the month.

2. Outlook for This Month

The AUD/USD pair is expected to move with a heavy topside around \$0.69 in June.

The pair was weighed down in May by concerns about US/China trade talks and speculation about Australian rate cuts. The pair had traded in a range between \$0.70–\$0.73 for over six months, but it now broke below this range to tumble to \$0.69. Since the release of some bearish Australian Q1 CPI data mid-April, market attention has been drawn to the employment data. The RBA also monitors employment-related indicators in addition to the inflation figures, so when Australia released some unexpectedly-weak employment data in May, this led to further speculation about a rate cut. Furthermore, the markets began pricing in an earlier rate cut after RBA governor Philip Lowe mentioned that the RBA board would be discussing rate cuts when it met in June. If cash rate forward rates are anything to go by, market participants are expecting two rate cuts by October this year. Government bond yields of all durations are falling, with the benchmark Australian 10-year government bond yield falling to a record low. Even if the RBA does institute a rate cut when it meets in June, this is unlikely to have much impact on the currency pair given how the markets have already priced in two or more rate hikes within the year. If the June meeting hints at further rate cuts, the Australian dollar could weaken further, but if the meeting is not as dovish as the markets are expecting, there could be some unwinding of these excessive expectations for rate cuts. The AUS/USD pair traded with a heavy topside in the run up to June and this trend will probably continue this month as US/China trade frictions flare up again and the Brexit situation grows more tumultuous following UK prime minister Theresa May's resignation.

The ruling conservative coalition had been expected to lose the Australian general election held on May 19, but it actually managed to increase its seats, so it will probably be able to put together a simple majority in the lower house. In its budget for fiscal 2019/20, released in April, the ruling coalition pledged to cut income tax rates across all categories of earners while also slashing corporate tax for small- and medium-sized companies and investing substantially in infrastructure. All this is expected to boost the Australian economy, which is moving somewhat bearishly at present.

Reiko Kanemoto, Canada Office, Global Markets Coordination Department

Canadian Dollar – June 2019

Expected Ranges	Against the US\$:	C\$1.3200–1.3650
	Against the yen:	JPY79.00–86.00

1. Review of the Previous Month

The USD/CAD pair opened May trading at C\$1.3404. The greenback then rose sharply against ten major currencies on May 2. This came as expectations for a US rate cut receded when FRB chair Jerome Powell commented in his press conference after the FOMC meeting that transitory factors might be why the inflation rate was trending below 2%. Furthermore, the weekly statistics of the US Energy Information Administration (EIA) had been released the previous day and these revealed that crude oil inventories had hit a two-year high. This also pushed the greenback higher, with the USD/CAD pair climbing to C\$1.3477 on May 2. WTI prices then fell and risk aversion prevailed when President Trump mentioned lifting tariffs on Chinese imports, so the Canadian dollar was sold.

The Canadian trade data for March was released on May 9. The trade balance had worsened and the previous month's data had also been revised downwards, so the Canadian dollar was sold and the currency pair rose to the C\$1.35 range. However, data released on May 10 revealed that the Canadian economy had added 106,500 jobs in April. This was significantly better than expected and it was also the biggest gain since records began. With the unemployment rate also falling and average hourly wages climbing, the USD/CAD pair dropped below \$1.34.

The Canadian CPI data for April was released on May 15, with the figure hitting +0.4% m-o-m and +2.0% y-o-y. Though the result chimed with the Bank of Canada's target, it was largely due to rising gasoline prices, so the impact on the currency pair was negligible. The Canadian dollar was bought on May 17 on reports that the US would be scrapping tariffs on aluminum imports from Canada and Mexico. Canada's retail sales data for March was then released on May 22. At +1.1% m-o-m, the figure was down on expectations, though sales were up sharply by +1.7% m-o-m once automobiles were removed from the equation, so the Canadian dollar was bought and the pair dropped to a monthly low of C\$1.3358.

2. Outlook for This Month

The Bank of Canada (BOC, central bank) kept its policy rate fixed at 1.75% on May 29. It recognized that risk was rising across the globe, though it also said the slump in the economic data would be temporary, with growth expected to recover in the second quarter. It also maintained that policy rate decisions would continue to depend on economic data.

Canada's Q1 GDP data was released on May 31. At +0.4% q-o-q, the data was down on market expectations for growth in the region of +0.7%, though the standalone figure for March stood at +0.5%

q-o-q, the best result since May 2018.

Furthermore, President Trump slapped an extra 5% tariff on Mexican imports at the end of May on the grounds that Mexico was not doing enough to stop illegal immigrants, with Mr. Trump also saying that tariffs could be hiked by as much as 25% in future, depending on Mexico's response. This cast doubts on the ratification of the United States-Mexico-Canada Agreement (USMCA; the successor to NAFTA). Together with concerns about US/China trade frictions, this led to Canadian-dollar selling, with the currency pair temporarily hitting C\$1.3565 on May 31.

In a mid-May speech, BOC governor Stephen Poloz said he was unsure about the timing or scale of future rate hikes. He also said he expected the Canadian economy to start growing again in the latter half of 2019. This led to growing market speculation about rate cuts, so the situation will require monitoring from here on.

Based on the above, the USD/CAD pair is expected to trade in a range from C\$1.33–C\$1.35 in June. However, the pair could hit C\$1.36 if economic indicators deteriorate, the global economy clearly slows, and market expectations for a rate cut grow.

Yasunori Shimoyama, Seoul Treasury Office

Korean Won – June 2019

Expected Ranges	Against the US\$:	KRW1,150–1,200
	Against the yen:	JPY8.929–9.434 (KRW100) (KRW10.600–11.200)

1. Review of the Previous Month

The USD/KRW pair rose in May.

After opening the month at KRW1165.00, the pair then hit a monthly low of KRW1160.70 on the same day. The pair had strengthened late April on some bearish Chinese economic indicators and so on. Risk sentiments then worsened. This was due to several factors. For a start, the US hit China with a third round of tariff hikes while also threatening to introduce a fourth round. Cabinet-level US/China trade talks over May 9–10 also came to nothing, with President Trump launching a verbal attack on China, saying it had torn up an agreement. On top of this, President Trump signed a presidential decree essentially targeting Huawei, a major Chinese telecommunications company. All this saw the pair undergoing a one-sided rise to hit KRW1196.50 on May 22.

However, the Bank of Korea made verbal interventions to curb the pair's rise just before the KRW1200 mark, with officials saying the pair had risen too fast. Speculators now began adjusting their accumulated dollar long positions. This saw the pair moving heavily on the topside.

The pair climbed to the KRW1196 range on May 29, but the authorities verbally intervened again and this held down the pair's topside.

The Bank of Korea's Monetary Policy Committee (MPC) kept policy rates fixed when it met on May 31. This was not a unanimous decision, though, with some participants calling for a rate cut, so caution will be needed. In the end the pair closed the month trading at KRW1190.90.

2. Outlook for This Month

The USD/KRW pair is expected to float at highs in June.

In May, the pair essentially underwent a one-sided rise until just below the key KRW1200 mark, though its topside was then held down by verbal interventions from Bank of Korea officials. KRW1200 is a level that the South Korean authorities cannot ignore, so even if the pair overshoots this level at times, on the whole the level will probably act at the pair's ceiling.

Meanwhile, US/China trade frictions have flared up again and it is hard to see the two sides finding any common ground. When it comes to a fourth round of tariff hikes on Chinese goods, the US government and corporate sector are currently trying to gauge what impact such a move would have. The next event will be the US/China heads of state meeting at the G20 summit, scheduled to be held on

Osaka over June 28–29. Market participants will be watching to see if the meeting produces some kind of result. Either way, at this moment in time it seems no conclusion will be reached until the end of June at the earliest. There are still a number of hurdles to be cleared, including whether the leaders of the US and China can agree to get around the table in the first place.

Under these circumstances, it seems the KRW1200 mark will act as the pair's ceiling throughout June, with the pair jostling around the upper-1100 range while reacting to headlines. However, if news emerges that the leaders of the US and China will not even be meeting at the G20 summit, this could lead to a sharp fall in expectations for an improvement in US/China relations, with the pair potentially breaking through the KRW1200 ceiling. As such, on the whole the pair will probably trade with an eye on any potential upswings.

A glance at currency increase/decrease rates or rankings since the turn of the year clearly suggests that the Korean won has been oversold, so if risk sentiments improve, the pair could be bought sharply. Based on the above, the pair looks set to float at highs in June with KRW1200 as its ceiling, though it could overshoot higher or lower, so caution will be needed.

New Taiwan Dollar – June 2019

Expected Ranges	Against the US\$:	NT\$30.90–31.90
	Against the yen:	JPY3.40–3.55

1. Review of the Previous Month

The USD/TWD pair's movements in May were marked by dollar bullishness and Taiwan-dollar bearishness.

It opened the month trading at TWD30.910 on May 1. With events like the FOMC meeting and the release of the April US employment data passing smoothly, the pair continued to move in a narrow range around TWD30.9. On May 6, though, President Trump announced that tariffs on \$200 billion of Chinese imports would be lifted from 10% to 25%, effective May 10. Optimism had grown about the US/China trade dispute, but concerns now flared up again. The greenback was subsequently bought and the Taiwan dollar sold, with the currency pair rising to the upper-TWD30.9 mark.

With the US then implementing the aforementioned tariff hike, China announced a 25% retaliatory tariff hike on \$60 billion of US products. As risk aversion intensified, overseas funds flowed out of Taiwan, with the Taiwan dollar sold at a faster pace against its US counterpart. The pair had traded in a range between TWD30.7–31.0 for around six months, but it broke out of this range on May 13 to hit the TWD31 range.

In the latter half of the month, the US Department of Commerce banned US companies from procuring parts from Huawei Technologies, a Chinese firm. This led to concerns that the sanctions would have wide-ranging repercussions beyond Huawei, so risk aversion intensified and Taiwanese stocks moved bearishly, with overseas funds continuing to flow out of Taiwan. With the RMB also weakening against the dollar, the USD/TWD pair rose at a comparatively fast pace to hit TWD31.584 on May 22, its highest level in 28 months, dating back to January 2017.

However, stocks and the RMB stopped falling toward the end of the month. With exporters also selling the greenback at highs, the Taiwanese dollar strengthened against its US counterpart. On May 28, the pair temporarily hit TWD31.409.

2. Outlook for This Month

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

A glance at the economic indicators released in May shows the April export amount falling by -3.3% y-o-y. With the global economy slowing, this slump impacted a wide range of sectors. Key exports of electronic parts dipped by -5.0% y-o-y, for example, with exports of metal products and machinery also sliding by -9.9% y-o-y and -6.2% y-o-y, respectively. Exports to China and Hong Kong (which account

for around 40% of all Taiwan's exports) slumped by -8.8% y-o-y on uncertainty about the future of US/China trade talks, with this dragging overall growth lower. With no resolution in sight to the US/China trade dispute, the Taiwanese government is continuing to adopt a cautious stance about the future. At +0.66% y-o-y, meanwhile, the CPI data for April grew at a slightly fast pace compared to March (+0.56% y-o-y). Though food prices had risen, the price of transportation and communications fell and this naturally pushed down the overall figure.

The markets will continue to focus on headlines related to the US/China trade dispute in June. Concerns about this issue flared up again in May after the US hit China with another tariff hike. With the RMB moving bearishly, the Taiwan dollar also weakened against its US counterpart. The G20 will be meeting in Osaka over June 28–29. President Trump has indicated he wants to use the occasion to hold a meeting with the Chinese president Xi Jinping. This raises the prospect of the first US/China heads of state meeting since December last year. If this leads to some positive results, the Taiwan dollar's May losses will probably be pared back.

Furthermore, the movements of the USD/TWD pair are strongly correlated to those of the USD/RMB pair at present. The latter pair rose sharply in May and it is now approaching 1\$/RMB7.0, a level the Chinese authorities are apparently prepared to defend. If the Chinese authorities do take some defensive measures like they did in 2018, they will place a floor on RMB bearishness, with the USD/TWD pair's upside also potentially held down as a result.

The Central Bank of the Republic of China (Taiwan) will be holding its quarterly Monetary Policy Meeting this month. With inflation currently in the doldrums, the Monetary Policy Meeting will probably keep the discount rate (the policy rate) fixed at 1.375%, with the impact on the currency pair negligible.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – June 2019

Expected Ranges	Against the US\$:	HK\$ 7.8400–7.8500
	Against the yen:	JPY 13.60–14.20

1. Review of the Previous Month

Hong Kong dollar spot exchange market in May

In May, the U.S. dollar/Hong Kong dollar exchange rate fell to HKD 7.85—the lower end of the fluctuation band—as pressure for capital outflow strengthened due to the trade frictions between the U.S. and China coming back into focus once again. However, the Hong Kong Monetary Authority (HKMA) did not intervene in the foreign exchange market, stating that the selling and buying the Hong Kong dollars had been well balanced. Indeed, there was demand to buy Hong Kong dollars by Chinese companies listed in Hong Kong for the payment of dividends in May and June, and this was supporting the Hong Kong dollar. Furthermore, as the trade frictions between the U.S. and China are back into focus once again, the situation is making it likely for the Federal Reserve Board (FRB) to cut the interest rate by the end of the year. Thus, the interest rate differentials between the U.S. dollar and the Hong Kong dollar have been kept small. The one-year Hong Kong dollar forward point turned out to be –295 points—the highest level in approximately eight months. It should also be mentioned that, in terms of economic indices, the GDP growth rate for the first quarter and the retail sales for March and April turned out to be weak, and this is likely to be a weight on the annual growth rate outlook in Hong Kong.

Hong Kong dollar interest rate market in May

The liquidity level in Hong Kong has been flat, as investors keep their funds in the Hong Kong dollar market. It should be added however that if the trade frictions between the U.S. and China persist, long-term concerns over capital outflow would strengthen, pushing up the medium- to long-term Hong Kong dollar interest rates and steepening the Hong Kong dollar forward curve. Indeed, the forward point spread between the one-month Hong Kong dollar forward point and the one-year Hong Kong dollar forward point significantly narrowed in May from –420 points to –280 points. The three-month Hong Kong dollar HIBOR stayed almost flat at around 2.1%, while the one-month HIBOR fell from 2.1% to around 1.8%. Also, while the Hong Kong dollar HIBOR and the U.S. dollar LIBOR spread remained flat for the three-month rates at around –50 basis points, the spread fell for the one-month rates from –37 basis points to –60 basis points. For the medium and long terms, the three-year and five-year Hong Kong dollar interest

rate swap rates fell, following the fall of the U.S. dollar interest rate swap rates. The checkable deposit balance of the HKMA has remained generally at the same level at HKD 54.4 billion, as the HKMA did not intervene in the market to support the Hong Kong dollar even at the time of the recent depreciation of said dollar.

Hong Kong stock market in May

In May, the benchmark Hang Seng Index (HSI), which was on an uptrend previously, fell sharply by approximately 3,000 points to the 27,000-point level, as U.S. President Donald Trump announced his decision to raise the customs duties on Chinese imports worth USD 200 billion by 25%. Furthermore, the Chinese government announced its decision to introduce retaliatory duties, which further worsened market sentiment, while the trade frictions spread into the technology sector. In reaction to this, investors sold stocks mainly in the high-technology sector. As the trade problems between the U.S. and China became visible again, foreign investors actively sold Chinese A stocks through the Shanghai-Hong Kong Stock Connect investment channel.

2. Outlook for This Month

Hong Kong dollar spot exchange market in June

In June, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate between HKD 7.84 and HKD 7.85. The trade frictions between the U.S. and China became visible once again, significantly influencing the Hong Kong dollar exchange market. The G20 Summit meeting is scheduled for June 28 and 29, and if Chinese President Xi Jinping and U.S. President Donald Trump do not hold dialogue at that occasion, the trade frictions are likely to grow more serious, strengthening pressure for capital outflow from the Hong Kong market, leading Hong Kong stock prices to fall significantly.

It should also be mentioned that there are risks for the U.S. dollar/Chinese yuan exchange rate to exceed CNY 7.00, as well as risks of Chinese economic downturn that remain as a weight on the Hong Kong dollar exchange market. Thus, the U.S. dollar/Hong Kong dollar exchange rate is expected to approach the HKD 7.85 level once again. However, if that happens, the HKMA is likely to protect the U.S. dollar peg system through its foreign currency reserves. On the other hand, the one-year Hong Kong dollar forward point is on an uptrend as a result of growing concerns over capital outflow.

Hong Kong dollar interest rate market in June

The Hong Kong dollar is forecast to continue rising in the times ahead because of seasonal factors at the

period of the end of the quarter, while the HKMA is likely to absorb Hong Kong dollar liquidity. In particular, the balance of the HKMA checkable deposits has been low compared to previously at HKD 54.4 billion. (It was HKD 179 billion before the first intervention by the HKMA in April 2018.) Therefore, if the HKMA decides to put more pressure on the supply of Hong Kong dollars in the times ahead through the issuance of exchange fund securities, it is possible for the liquidity level to fall, strengthening pressure to procure funds in the Hong Kong dollar.

It should also be mentioned that the long-term Hong Kong dollar interest rates are likely to rise in the times ahead, as the trade frictions between the U.S. and China have been heating up, strengthening pressure for capital outflow, even though the FRB currently maintains a dovish attitude.

Kazuki Baba, Treasury Department, MHBK (China)

Chinese Yuan – June 2019

Expected Ranges	Against the US\$:	CNY 6.7000–7.0000
	Against the yen:	JPY 15.43–16.87
	Against 100 yen:	CNY 5.9300–6.4800

1. Review of the Previous Month

Foreign exchange market

In May, the Chinese yuan depreciated significantly against the U.S. dollar, as concerns grew over the intensification of the trade frictions between the U.S. and China.

On May 5, U.S. President Donald Trump made an announcement that the customs duties on imports from China worth HKD 200 billion would be raised from 10% to 25%. On May 10, a ministerial meeting was held, but in the end the U.S. raised the customs duties, as had been planned. China also announced its decision to introduce retaliatory customs duties on imports from the U.S. worth USD 60 billion up to 25% as of June 1, in reaction to which the U.S. announced its additional plan to raise the customs duties on all of the remaining imports from China worth USD 300 billion. Thus, the situation radically changed in April, and concerns over the trade negotiations between the U.S. and China grew significantly. Furthermore, on May 15, U.S. President Donald Trump signed an executive order aimed at banning U.S. companies from importing telecommunications equipment from foreign companies that pose a risk to national security, while also including Huawei on the list of restricted companies. In response to this, the Chinese yuan depreciated significantly against the U.S. dollar and the U.S. dollar/Chinese yuan rose from the mid-CNY 6.76 level to approach CNY 6.92, which was the same level observed after International Workers' Day in China.

In the second half of the month, the deputy governor of the People's Bank of China (PBOC) made a remark such that there were varieties of methods available for dealing with the fluctuation of the Chinese yuan exchange rate and that thus it is possible to keep the foreign exchange market stable. Under such circumstances, the U.S. dollar/Chinese yuan central parity rate was set almost at the same level at just under CNY 6.90 for consecutive days, demonstrating the will of the Chinese monetary authorities to stabilize the foreign exchange market. As a consequence, the U.S. dollar/Chinese yuan exchange rate also remained almost flat at around CNY 6.90 toward the end of the month.

Interest rate market

At the beginning of the month, there was little demand to procure funds among market participants after the end of the month and during the consecutive holidays. Thus, the overnight interest rate once reached 1.141%—the lowest rate since 2015. Thereafter, a major Chinese bank restricted its capital supply, which led to adjusting the interest rate back to the original level. Interest rates for fixed terms that were gradually rising started to fall slightly.

In the second half of the month, the PBOC issued a new, medium-term lending facility (MLF) worth CNY 200 billion, and on May 15, the reserve requirement ratio was cut for small-scale banks as the first step, supplying liquidity worth CNY 100 billion. While the liquidity level in the capital market continued to rise, fixed-term interest rates remained low and stable. On May 21, the corporate tax payments peaked and short-term interest rates—the overnight interest rate, in particular—rose momentarily. However, thanks to the effect of capital supply operations, the demand & supply balance was gradually corrected, leading the overall interest rates to fall.

2. Outlook for This Month

Foreign exchange market

Since the U.S.-China summit dialogue held on December 1 last year, optimism was spreading, encouraging market participants to buy back the Chinese yuan. However, the trade frictions between the U.S. and China recently intensified again, strengthening risk-averse sentiment. As a result, market participants are currently selling the Chinese yuan against the U.S. dollar.

Given that trade negotiations between the two countries are currently underway and as it is possible for a summit dialogue between the U.S. and China to be held in June, it is not likely for the U.S. dollar/Chinese yuan exchange rate to exceed the CNY 7.0 level with further depreciation of the Chinese yuan in the near future. However, if the two countries fail to reach an agreement, resulting in the introduction of the maximum of 25% of customs duties on the remaining imports, it is possible for stocks prices to fall further worldwide with concerns over worldwide economic downturn. Market participants should thus remain cautious about the trends in the Chinese yuan exchange market, in such a case. Even though it will all depend on the outcome of the trade negotiations between the U.S. and China, the Chinese yuan is expected to appreciate gradually with the effects of various fiscal measures and monetary policies, along with strengthened restrictions in China.

Interest rate market

In the capital market, the liquidity level is forecast to remain high, keeping fixed-term interest rates low and stable. While concerns are growing over a slowdown of the Chinese economy due to the trade frictions between the U.S. and China, it is possible for the Chinese monetary authorities to introduce measures of monetary easing. Market participants should thus remain careful about the operations to be taken by the PBOC.

Shinya Maegawa, Asia & Oceania Treasury Department

Singapore Dollar – June 2019

Expected Ranges	Against the US\$:	SG\$ 1.3600–1.3900
	Against the yen:	JPY 78.00–82.00

1. Review of the Previous Month

In May, the Singapore dollar was sold due to the depreciation of the Chinese yuan as well as due to growing concerns over the trade frictions between the U.S. and China, and the U.S. dollar/Singapore dollar exchange rate rose from the lower-SGD 1.36 level to approach SGD 1.38 for the first time since November last year.

In the first week of the month, the Federal Open Market Committee (FOMC) meeting ended on May 2, and there were no more future interest rate cuts expected, and this encouraged market participants to buy back the U.S. dollar. As a result, the U.S. dollar/Singapore dollar exchange rate fluctuated at the lower-SGD 1.36 level. On May 3, the U.S. employment statistics were released, and the unemployment ratio turned out to be at its lowest rate in approximately 49 years. However, the wage increase did not accelerate. Thus, the results contained both positive and negative elements, encouraging market participants to sell the U.S. dollar. Under such circumstances, market participants bought the Singapore dollar, and the exchange rate approached SGD 1.36 to the U.S. dollar. On the same day, the April Purchasing Managers Index for Singapore was also released, and the result was below the market estimate. However, the reaction in the market was minimal.

In the second week of the month, Chinese stock prices fell by 5.6% on May 6, with fading optimism in the market concerning the trade negotiations between the U.S. and China, as U.S. President Donald Trump made a remark on the previous day that he would raise the customs duties on imports from China worth USD 200 billion from the current rate of 10% to 25%, while the customs duties on remaining imports worth USD 325 billion would also be raised to 25% in the near future. Under such circumstances, risk-averse sentiment grew in the market, and market participants sold the Singapore dollar, leading the U.S. dollar/Singapore dollar exchange rate to the mid-SGD 1.36 level. On May 7, U.S. President Donald Trump announced a decision on the raising of the customs duties against China. However, negotiations between the U.S. and China resumed on May 9, and, with expectations for progress in the negotiations, market participants bought back the Singapore dollar. Thereafter, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range at the lower-SGD 1.36 level. Then, on May 10, the March result for retail sales in Singapore was announced, exceeding the market estimate, which temporarily

encouraged market participants to buy the Singapore dollar.

In the third week of the month, risk-averse sentiment grew stronger in the market on May 13, with the trade negotiations between the U.S. and China reaching a stalemate, leading the Singapore dollar against the U.S. dollar to approach the SGD 1.37 level. However, on May 14, as U.S. President Donald Trump made a remark that the trade negotiations with China had not ended in failure, to which the market reacted positively, the depreciation of the Singapore dollar halted. On May 16, a series of economic indices were released in the U.S. with figures stronger than market estimates, which encouraged market participants to buy the U.S. dollar. On May 17, the April figure for the non-oil domestic exports (NODX) of Singapore was announced, and the result turned out to be weaker than estimated. As a result, market participants sold the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate reached the mid-SGD 1.37 level.

In the fourth week of the month, the confirmed figure of Singapore's GDP for the first quarter was announced on May 21, and the result turned out to be +1.2% year-on-year, falling below the market estimate. Furthermore, amid the Chinese yuan continuing to renew its weakest exchange rate against the U.S. dollar, market participants also sold the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.37 level. On May 22 and after, the trade frictions between the U.S. and China started showing signs of stagnation, fueling risk-averse sentiment in the market. Under such circumstances, the Singapore dollar continued gradually depreciating against the U.S. dollar to the lower-SGD 1.38 level. Then, on May 24, the April industrial production result of Singapore was released, and the result turned out to be stronger than estimated in the market. As a result, market participants bought back the Singapore dollar and the U.S. dollar/Singapore dollar exchange rate reached the mid-SGD 1.37 level.

2. Outlook for This Month

In June, the Singapore dollar is forecast to weaken, as the U.S. dollar is likely to strengthen. While the risk-averse sentiment seen in May has been somewhat mitigated, concerns over the persistent trade frictions between the U.S. and China continue to put some weight on the Singapore dollar exchange market.

Even though optimism was growing for the trade negotiations between the U.S. and China, risk sentiment radically worsened in May, as U.S. President Donald Trump made an announcement that the customs duties on Chinese products worth USD 200 billion would be raised from 10% to 25%. Furthermore, the U.S. has been strengthening pressure on China not only in terms of customs duties but also in terms of other political measures, making it likely for the frictions between the U.S. and China to persist for the long term. Under such circumstances, risk-averse sentiment grew in the market, encouraging market participants to buy the U.S. dollar, weakening the Chinese yuan. Following this trend, market participants

also sold the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate approached SGD 1.38 for the first time since November last year. Thereafter, the People's Bank of China (PBOC) showed its intention to stabilize the Chinese yuan exchange market. However, market participants should remain cautious about the future trends in the Chinese yuan exchange market.

It should also be mentioned that the confirmed figure of Singapore's GDP for the first quarter was announced in May and that the result turned out to be weaker than the market estimate at +1.2% year-on-year. While the frictions between the U.S. and China have been intensifying, exports from Singapore are likely to remain stagnant for a while. Moreover, production in the manufacturing sector is expected to remain low, and the annual growth rate of Singapore is likely to be slightly below 2.5%. Market participants need to continue carefully observing the fundamentals, including economic indices.

Hiroyuki Yamazaki, Bangkok Treasury Office

Thai Baht – June 2019

Expected Ranges	Against the US\$:	THB 31.10–32.50
	Against the yen:	JPY 3.35–3.50

1. Review of the Previous Month

In May, the U.S. dollar/Thai baht exchange market opened trading at around THB 31.90. On May 1, many markets were closed for Thailand's Labor Day. Under such a condition, the Federal Open Market Committee (FOMC) held a meeting and announced its decision to maintain the Federal Funds interest rate at the existing level. However, Federal Reserve Board (FRB) Chair Jerome Powell held a press interview thereafter and made a slightly hawkish remark, which encouraged market participants to buy back the U.S. dollar. On the following day, the same trend persisted in the market, and the U.S. dollar/Thai baht exchange rate once exceeded THB 32.00. In the evening of May 3, the April employment statistics of the U.S. were released, and the NFP and the unemployment rate turned out to be strong, while the wage increase turned out to be weaker than the market estimate. Furthermore, during the weekend, U.S. President Donald Trump announced that the customs duties on Chinese products worth USD 200 billion would be raised from 10% to 25% as of May 10. As a consequence, concerns over the trade frictions between the U.S. and China became visible again. The risk-taking sentiment in the market was reversed, and risk-averse sentiment strengthened rapidly. Under such circumstances, the U.S. dollar/Thai baht exchange rate started to fall. After the three consecutive holidays, the U.S. dollar/Thai baht exchange rate hovered around THB 31.90 on May 7. However, in the early morning of May 8, the exchange rate fell sharply below THB 31.80. On the same day, the central bank of Thailand held a monetary policy committee (MPC) meeting and decided to maintain the policy interest rate at 1.75%, as had been anticipated. Furthermore, in the statement, the central bank revealed its view regarding the current situation of the Thai economy, predicting that economic growth would slow down and that the inflation rate would remain below the target figure, adding some weight on the Thai baht exchange market. Toward May 10, at the end of the week, U.S. President Donald Trump accused China of breaking a deal, which fueled risk-averse sentiment in the market, while the media reported that Thailand might be included in the watchlist in the foreign exchange report by the U.S. Treasury Department to be released before the end of the month. As a consequence, the exchange rate fell again, reaching a level below THB 31.60 toward overseas trading hours.

During the following week, on May 13, the Chinese yuan depreciated further, as the U.S. exercised its customs duties against China at the end of the previous week. As a result, market participants started to

sell the overall Asian currencies, and the U.S. dollar/Thai baht exchange rate once returned to the THB 31.70 level. However, the trend did not last for a long time, and the exchange rate started falling again. Toward May 16, the following day, the U.S. dollar/Thai baht pair continued trading at around THB 31.50. On May 16, the governor of the central bank of Thailand, Veerathai Santiprabhob, made a remark predicting that the GDP for 2019 would fall below 3.8%. In reaction to this, the Thai baht started to depreciate. Thereafter, the economic indices of the U.S. were released with strong figures, while the overall Asia currencies continued weakening due to the depreciation of the Chinese yuan. Thus, the U.S. dollar/Thai baht exchange rate continued intermittently rising and reached the THB 31.80 level. In the following week, the first-quarter GDP of Thailand was announced on May 21, and the result turned out to be +2.8% year-on-year, revealing the lowest figure since 2014. Consequently, the U.S. dollar/Thai baht exchange rate rose further, temporarily reaching the THB 32.00 level toward May 22. However, on May 24, the media reported that the U.S. would introduce additional customs duties against possible currency manipulators. In response to this news, the U.S. dollar/Thai baht exchange rate started to slowly fall toward THB 31.80. It should also be mentioned that, on the same day, the National Assembly of Thailand was convened for the first time in five years, and the president was elected without any confusion.

In the following week, the U.S. dollar/Thai baht exchange rate remained mainly at the THB 31.80 level, while temporarily falling below THB 31.80 on May 27. However, at the end of the week, the exchange rate fell below THB 31.60 to the U.S. dollar due to growing concerns over the trade frictions between the U.S. and China.

2. Outlook for This Month

As the trade frictions between the U.S. and China intensified, risk-averse sentiment grew again in the market. As a result, the Thai baht is appreciating against the U.S. dollar again. In Thailand, while domestic politics have been a source of concern, the confusion has been abated and the National Assembly was held, smoothly electing the president. The marriage of the King was also announced, and in such a festive mood, the country remains stable without any large-sale demonstrations.

On the other hand, the outlook of the Thai economy remains a source of concern. However, domestic personal consumption has been steadily growing, while a fall in external demand is unavoidable. Furthermore, the number of tourists visiting Thailand has been showing signs of recovery. Therefore, the economic conditions of Thailand seem to be healthy compared to surrounding countries, even though the first-quarter figures turned out to be weaker than the estimate made at the beginning of the year.

It also seems that Thailand has been attracting capital inflow at a time of risk-aversion, as the Thai economy has been relatively stable, while the inflation rate and interest rates are low.

It is possible for the Thai baht to appreciate further in the times ahead due to the intensification of the trade frictions between the U.S. and China. Market participants should therefore see THB 31.10, near the lowest rate since the beginning of the year, as the lowest point for future fluctuation.

On the other hand, CNY 7.00 would be an important turning point for the U.S. dollar/Thai baht exchange market. The depreciation of the Chinese yuan would lead to the depreciation of other Southeast Asian currencies, leading the U.S. dollar/Thai baht exchange rate to rise. Thus, market participants should remain careful about the trends in the Chinese yuan exchange market.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – June 2019

Expected Ranges	Against the US\$:	MYR 4.1300–4.2500
	Against the yen:	JPY 25.80–26.50
	Against 100 yen:	MYR 3.7800–3.8800

1. Review of the Previous Month

In May, the U.S. dollar/Malaysian ringgit exchange rate rose because of concerns over a global economic slowdown derived from the trade frictions between the U.S. and China. As a result, the exchange rate renewed its highest level observed since the beginning of the month.

At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange market opened at the lower-MYR 4.13 level. Foreign investors' capital continued flowing out of the domestic market due to concerns over the possibility for FTSE Russell to remove Malaysian government bonds from the World Government Bond Index, discussed since the middle of April. Under such circumstances, Federal Reserve Board (FRB) Chair Jerome Powell made a remark to express his neutral attitude regarding an interest rate change at the Federal Open Market Committee (FOMC) meeting held at the beginning of the month, sweeping expectations in the market for an interest rate cut. These factors led the U.S. dollar/Malaysian ringgit exchange rate to rise to the MYR 4.14 level. On May 3, U.S. President Donald Trump made an unexpected tweet, announcing a rise of the customs duties on imports from China worth USD 200 billion from 10% to 25% as of May 10. In response to this, the U.S. dollar/Malaysian ringgit exchange rate remained at a level just below MYR 4.15 on May 6 and after, although it did not fall below this level, thanks to transactions that may have been placed by the Malaysian monetary authorities. On May 7, the central bank of Malaysia cut the overnight policy interest rate by 25 basis points in order to deal with downward risks related to the global economy, while the market outlook was divided. Even though market participants did not react significantly immediately after the announcement, there were fewer transactions in the market on May 9, and the U.S. dollar/Malaysian ringgit exchange rate exceeded MYR 4.15—the highest level since the beginning of the year.

After the customs duties were raised, China also raised customs duties against imports from the U.S. worth USD 60 billion up to 25% on May 13. On the other hand, the U.S. started procedures to raise the customs duties on the remaining imports from China worth USD 325 billion, so as to imply the next action in response. Then, the U.S. dollar/Malaysian ringgit exchange rate renewed its highest level since the beginning of the year again at MYR 4.1765 on May 16, and, on the same day, the GDP for the first quarter

was announced, revealing a positive year-to-year growth of 4.5%. This was above the market estimate (+4.3%), thanks to rapid recovery in the production of palm oil. The balance of international payments also recorded a current account surplus of MYR 16.4 billion, exceeding the estimated level. However, the surplus was cancelled out by the outflow in the financial account balance, which amounted to MYR 13.2 billion. Furthermore, the central bank of Malaysia announced an additional policy measure to facilitate access to the domestic foreign exchange and bond markets in Malaysia. After this announcement, the U.S. dollar/Malaysian ringgit exchange rate once fell to the MYR 4.15 level, but this fall was only temporary. On May 17, the following day, the exchange rate rose again to the MYR 4.17 level.

At the end of the month, sanctions against Chinese companies accelerated, such as against Huawei and Hikvision, regarding issues of intellectual property rights, as a main cause for the trade frictions between the U.S. and China. As the Brexit negotiations were also in a state of confusion, market participants bought safe currencies. As a result, the U.S. dollar/Malaysian ringgit exchange rate renewed the highest level since the beginning of the year yet once again at MYR 4.2020.

2. Outlook for This Month

In June, the U.S. dollar/Malaysian ringgit exchange rate is forecast to renew its highest level since the beginning of the year again, as the trade frictions and issues related to intellectual property rights between the U.S. and China are in an unexpectedly undesirable situation, placing weight on the Malaysian ringgit exchange market, while concerns persists over the position of Malaysian government bonds in the World Government Bond Index.

In order to improve accessibility to the Malaysian government bond market as pointed out by FTSE Russell, the central bank of Malaysia announced deregulation on foreign exchange hedges on deposit assets targeting trust banks, deposit asset trusts, and investment advisory companies, at the same time as the announcement of the GDP. Since the change of the governor last year, the central bank of Malaysia has been gradually deregulating the restrictions in the foreign exchange market that were strengthened in December 2016 in accordance with the market conditions. The recent discussion on the World Government Bond Index seems to be a request for further acceleration of such deregulation. In the domestic government bond market, there was a net inflow of foreign investors' capital in February and March. However, in April, the situation was radically reversed to a significant outflow of MYR 10 billion. Unlike the market before the strengthening of restrictions, there are no speculative investors in the current market. Thus, it is unlikely for the Malaysian ringgit to sharply depreciate, as was the case at the end of 2016 and at the beginning of 2017. However, medium- to long-term investors are also expected to maintain a cautious attitude for a while.

It should also be mentioned that the trade frictions between the U.S. and China have taken a shape different from one month ago. Former Vice President Joseph Biden of the Democratic Party, who is also known as a “Panda Hugger,” expressed his intention to run in the presidential election in 2020. As a result, some market participants expect China to prolong the negotiations. It is thus likely for the problem to be resolved in a while. Also, the GDP of Malaysia for the first quarter saw an increase in production, thanks to the production of palm oil, confirming an increase in long-term purchasing by China. Therefore, the extended trade frictions would inevitably impact exports from Malaysia to China, which is largely dependent on the export of intermediate goods and primary products. On the other hand, as was discussed in this review two months ago, the approved amount of “inbound” foreign direct investment to Malaysia increased significantly in FY 2018. In particular, the Malaysian Investment Development Authority released detailed figures for the manufacturing sector, and the investment approved for China in the manufacturing sector mounted to MYR 19.7 billion, which is more than five times as large as the previous year. Investment is mainly targeting electrical and electronic, base metals, and pulp and paper products. With regard to investment in the paper-related sector, there is a particular background to this, as domestic production has become difficult due to changes made to environmental regulations in China. However, it can be said that a large amount of investment has been approved since the change of government in Malaysia, alongside the outbreak of the trade frictions between the U.S. and China during the second half of last year. Thus, the approval of investment seems to be mainly a means to move production sites to prepare for long-lasting trade frictions. The recent intensification of the trade frictions between the U.S and China may significantly increase direct investment, which would accelerate capital inflow. Market participants should thus remain cautious about the situation.

Indonesian Rupiah – June 2019

Expected Ranges	Against the US\$:	IDR 14,190–14,600
	Against 100 rupiah:	JPY 0.74–0.77
	Against the yen:	IDR 129.87–135.14

1. Review of the Previous Month

In May, the Indonesian rupiah depreciated against the U.S. dollar from the beginning to the middle of the month, leading the U.S. dollar/Indonesian rupiah exchange rate to rise from the IDR 14,200 level to exceed IDR 14,500. However, the trend was reversed, and the exchange rate fell toward the end of the month.

The U.S. dollar/Indonesian rupiah exchange market opened trading at around IDR 14,200 on May 2. On May 5, U.S. President Donald Trump announced on Twitter that he would raise the customs duties on Chinese products, worth USD 200 billion. Thereafter, the media reported that the Chinese government was considering discontinuing the trade negotiations with the U.S. In response to this, the market sentiment worsened significantly and stock prices fell worldwide. After the weekend, market participants sold the Indonesian rupiah, and the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 14,300 level on May 6.

In the meantime, the April Consumer Price Index of Indonesia was announced on May 2, and the result turned out to be +2.83% year-on-year, revealing inflation slightly more advanced than the market estimate. On May 8, the April amount of foreign currency reserves of Indonesia was announced with an almost unchanged figure from the previous month, at USD 124.3 billion.

Toward the middle of the month, concerns persisted over the trade negotiations between the U.S. and China, further strengthening risk-averse sentiment in the market. On May 13, the Jakarta Stock Index fell, while the Indonesian rupiah depreciated in the offshore NDF market. As a consequence, the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 14,400 level. Then, on May 15, the April trade balance figure was announced, and exports saw a significant fall, recording a trade deficit at an all-time high that largely exceeded the market estimate. In reaction to this, the Indonesian rupiah depreciated, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 14,400 level.

At the end of the month, it turned out on May 21 that current President of Indonesia Joko Widodo was re-elected in the presidential election. However, the supporters of another candidate, Prabowo Subianto,

carried out protests against “large-scale fraud” in the election. While the demonstrations continued, the Indonesian rupiah continued depreciating and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 14,500 level.

Thereafter, the demonstration calmed and the concerns over the trade negotiations between the U.S. and China were somewhat mitigated. As a result, the Indonesian rupiah rallied to approach IDR 14,350 against the U.S. dollar. The U.S. dollar/Indonesian rupiah pair has been trading at the upper-IDR 14,300 level (as of May 28, on a closing-rate basis).

2. Outlook for This Month

In June, the Indonesian rupiah is forecast to weaken against the U.S. dollar.

In May, there was a presidential election in Indonesia that developed into protests by supporters of Prabowo Subianto. In the end, however, the current president, Joko Widodo, was re-elected, sweeping away political uncertainty. This fact itself can be seen as a positive factor for the Indonesian rupiah exchange market.

Furthermore, some market participants expected the central bank of Indonesia to cut its interest rates. However, as downward pressure strengthened on the Indonesian rupiah, the policy interest rate was maintained at the existing level. Given national and international economic conditions, it is understandable to expect an interest rate cut. However, as this may accelerate the depreciation of the Indonesian rupiah, it is difficult for the central bank to cut the interest rates.

However, the trade balance announced in May recorded an all-time high deficit, and this would be a serious obstacle for the Indonesian rupiah. While exports to China, especially that of coal, were weak, the value of imports increased due to the appreciation of the crude oil price. Thus, the negative figures from both imports and exports led to the largest figure in the trade deficit. The trade negotiations between the U.S. and China will inevitably impact economic conditions in China, making it difficult to expect recovery in coal exports. On the other hand, the appreciation of the crude oil price has been somewhat slowing down. However, given the situation in the Middle East, which the U.S. is carefully observing, it is not likely for the crude oil price to fall significantly. It is not easy to change the structure of imports and exports in Indonesia, making it hard to achieve a trade surplus, let alone to make it stable.

There has been a slowdown in security investment as well. Until March, there had been vigorous capital inflow from foreign investors. However, after peaking out on April 12 at IDR 968 trillion, the value of Indonesian government bonds held by foreign investors has been decreasing, recording IDR 951 trillion

as of May 24, with a sense of fatigue in the market. It is possible for the Indonesian rupiah to temporarily rally in the times ahead, thanks to capital inflow based on security investment when the market sentiment improves. However, due to the situation in the trade balance discussed above, it would not be possible to cancel out the downward pressure on the Indonesian rupiah that resulted from the constant current account deficit.

It is therefore most likely for the Indonesian rupiah to depreciate as a result of Indonesian rupiah-selling based on actual demand.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – June 2019

Expected Ranges	Against the US\$:	PHP 51.85–53.20
	Against the yen:	JPY 2.07–2.10

1. Review of the Previous Month

In May, the U.S. dollar/Philippine peso exchange market opened trading at PHP 51.77. At the beginning of the month, risk-taking sentiment grew in the market, thanks to positive news from the end of April (the strong first-quarter GDP of the U.S. and the upgrading of the Philippines to BBB+ by the ratings agency, S&P), which strengthened the Philippine peso.

The April employment statistics of the U.S. led U.S. stock prices to rise while leading U.S. interest rates to fall. In the foreign exchange market, the U.S. dollar was sold, and the Philippine peso was expected to continue appreciating on May 6 after the weekend.

However, during the weekend, U.S. President Donald Trump released a comment that he would raise the customs duties on imports from China worth USD 200 billion from 10% to 25%, in reaction to which the sense of uncertainty grew regarding the trade negotiations between the U.S. and China, which had previously been seen with optimism. As a result, risk-averse sentiment strengthened in the market.

On May 7, the April Consumer Price Index (CPI) of the Philippines turned out to be +3% year-on-year, falling below both the market estimate, at +3.1% year-on-year, and the figure from the previous month, at +3.3% year-on-year, and this led market participants to expect measures of monetary easing. On May 8, the March trade balance of the Philippines was announced with a deficit of USD 3.14 billion—a larger deficit than the market estimate. Furthermore, the first-quarter GDP growth rate of the Philippines was announced on May 9, recording a significant slowdown at +5.6% year-on-year. As a result, the Philippine peso weakened against the U.S. dollar and the exchange rate remained at the lower-PHP 52 level. On May 9, the central bank of the Philippines held a monetary policy committee meeting and announced its decision to cut the policy interest rate by 0.25%.

The synchronized national and local elections of the Philippines (May 13) did not impact the exchange market. While many market participants waited to see the progress of the trade negotiations between the U.S. and China, China enacted retaliatory tariffs on U.S. goods and U.S. President Donald Trump signed an executive order to restrict sales of Chinese telecommunications devices in the U.S. Thus, risks persisted

in the foreign exchange market.

On May 16, the central bank of the Philippines announced its decision to gradually cut the deposit reserve requirement ratio for financial institutions, to be calculated according to their total deposit balance, from 18% to 16%. Thus, the central bank announced another measure of monetary easing after the policy interest rate cut, which led encouraged market participants to sell the Philippine peso, and the U.S. dollar/Philippine peso exchange rate reached PHP 52.71 on May 20—the lowest rate for the Philippine peso in 1.5 months.

Thereafter, there were some events in Europe that strengthened the risk-averse sentiment in the market. However, thanks to the recovery of market sentiment along with some large-scale U.S. dollar-selling, which encouraged market participants to buy back the Philippine peso, the U.S. dollar/Philippine peso pair has been trading at the PHP 52.30–52.40 level (as of 4 p.m. on May 29).

2. Outlook for This Month

Since the beginning of this year, the trade balance deficit of the Philippines had been shrinking. However, as the national budget bill for FY 2019 was finally approved in April, it is easy to imagine the expansion of the deficit in the times ahead.

Given that the monetary policy for the Philippine peso is set toward easing, it is also difficult to expect market participants to actively buy the Philippine peso. Thus, the Philippine peso is forecast to remain weak as long as the trade frictions between the U.S. and China persist.

On the other hand, the following factors are encouraging market participants to buy the Philippine peso, although these factors are not attracting as much attention as the issues related to the U.S. and China.

(1) The first-quarter GDP growth rate of the Philippines recorded a significant slowdown to +5.6% year-on-year, as was discussed above. However, personal consumption, which accounts for 70% of the GDP, recorded positive growth from +5.6% year-on-year to +6.3% year-on-year. Thus, the government maintained its outlook that it would be possible to achieve an annual target growth rate at +6.0–7.0%.

(2) The rating of the Philippines was upgraded.

(3) The OFW (Overseas Filipino Workers) remittances tend to increase in June.

(4) As a result of the medium-term election, the government under President Duterte was confirmed to

have been strengthened.

Therefore, it would be not surprising if the trend changes, leading the Philippine peso to start rallying, although this depends on how much the market sentiment will be improved.

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – June 2019

Expected Ranges	Against the US\$:	INR 67.50–72.50
	Against the yen:	JPY 1.51–1.62

1. Review of the Previous Month

In May, the U.S. dollar/Indian rupee exchange rate rose slightly, after which it returned to the level observed at the beginning of the month.

The U.S. dollar/Indian rupee exchange market opened trading at INR 69.39. In addition to the fact that the crude oil price fell, the securities depository in India announced a figure suggesting investment capital inflow from foreign investors. In reaction to this, the U.S. dollar/Indian rupee exchange rate fell to INR 69.08 on May 3—the lowest rate in the month. Thereafter, the U.S. dollar/Indian rupee exchange rate continued fluctuating at the lower-INR 69 level. However, in the second week of the month, the media started to report the intensification of the trade negotiations of the U.S. and China, and the U.S. actually raised customs duties on imports worth USD 200 billion to 25% as of May 10, leading the U.S. dollar/Indian rupee exchange rate to rise to the INR 70.64 level—the monthly high. However, the April core inflation rate of India turned out to be weak, attracting capital inflow into the domestic bond market. This kept the Indian rupee from depreciating further.

After the release of the outcome of the exit poll for the election, the U.S. dollar/Indian rupee exchange market opened on May 20 after the weekend with an Indian rupee stronger by 90 paise compared to the end of the previous week. Even though the overall Asian currencies remained weak, the Indian rupee did not depreciate. Toward the end of the month, crude oil inventories had unexpectedly increased according to the statistics of the U.S. Energy Information Administration. Furthermore, there were concerns over a slowdown in demand due to the frictions between the U.S. and China, leading the crude oil price to fall significantly. This was a positive factor for the Indian rupee. Moreover, the outcome of the election of India's lower house of Parliament was reported by the media, confirming the overwhelming victory of the current ruling party. As a result, the U.S. dollar/Indian rupee exchange rate rose, and the U.S. dollar/Indian rupee pair has been trading at the INR 69.58 level as of the time of this writing on May 27.

The Indian rupee/Japanese yen exchange rate fell in May.

The Indian rupee/Japanese yen exchange market opened trading in May at JPY 1.60. As was the case with the U.S. dollar/Indian rupee exchange rate, the Indian rupee/Japanese yen exchange rate continued fluctuating in both directions during which the exchange rate reached its monthly high on May 3 at JPY 1.612. The U.S. dollar/Japanese yen exchange rate was fluctuating at around the mid-JPY 111 level. However, the Japanese yen later appreciated against the U.S. dollar due to the risk-averse sentiment growing in the market due to the trade frictions between the U.S. and China. As was discussed above, the U.S. changed its customs duties against China followed by the announcement on China's decision to introduce retaliatory customs duties, encouraging market participants to buy the Japanese yen, and the exchange rate reached JPY 109.02 to the U.S. dollar. At the same time, the Indian rupee started depreciating against the U.S. dollar as well, which led the Indian rupee/Japanese yen exchange rate to fall to the monthly low of JPY 1.546.

Toward the second half of the month, there were some occasions at which the Japanese yen weakened against the Indian rupee, as the U.S. gave some leeway for its restrictions against Chinese companies, while the political situation in the U.K. remained a source of volatility. However, the trade negotiations between the U.S. and China persisted, and the U.S. economic indices turned out to be weak, leading the U.S. dollar/Indian rupee exchange rate to reach the lower-JPY 109 level. Following this trend, the Indian rupee/Japanese yen exchange rate also remained low, and the Indian rupee/Japanese yen pair has been trading at JPY 1.57 level as of the time of this writing on May 27.

2. Outlook for This Month

In June, the U.S. dollar/Indian rupee exchange rate is forecast not to move in any direction.

As a result of India's lower house Parliament election for 543 parliamentary seats, the current ruling party gained more than 300 seats, which had not been anticipated. It was a more-significant victory than the previous election in 2014, which had been said to be an overwhelming victory. In the times ahead, it will be important to see how precisely the public promises will be materialized and how such will impact the fiscal balance, as the volatility of the market tends to be higher after an election than before an election. It should be added, however, that there is a positive factor for the Indian rupee exchange market such that the concerns over the current ruling party after the local election last year were rapidly swept away.

Furthermore, as is clear from the fact that Indian stock prices have been renewing their all-time highs, there has been an inflow of security investment assets from abroad, as investors, i.e., those that have been engaged in long-term investment (such as in insurance or pensions, etc.), in particular, tend to look at political stability as an important element toward evaluating the appropriateness of investment for domestic securities. Along with this trend, market participants are expected to sell foreign currencies and

buy the Indian rupee.

On the other hand, market participants need to be cautious about the external environment. In the trade negotiations between the U.S. and China, both countries have raised customs duties against each other, while the U.S. has halted transactions with major Chinese telecommunications companies. Furthermore, it has been hinted by the U.S. that there are other Chinese companies that are not to be favored from the point of view of security. Thus, the trade frictions between the U.S. and China are likely to persist for the long term. Moreover, the issue of the Brexit has also persisted for a long time after the resignation of U.K. Prime Minister Theresa May, while there have been concerns over an economic slowdown in Germany, along with protests and terrorism fears in France. There are thus many factors that can worsen the market sentiment. Needless to say, when the market sentiment worsens and risk-averse sentiment grows in the market, the Indian rupee is likely to depreciate. However, the Japanese yen tends to appreciate against the U.S. dollar in such a situation. Thus, in general, the Japanese yen tends to be stronger than the U.S. dollar, which tends to be stronger than the Indian rupee. Therefore, with the above-mentioned negative factors, market participants should pay attention to downside risks to the Indian rupee/Japanese yen as a very safe currency pair.

Even though the election turned out to be a positive factor, the U.S. dollar/Indian rupee exchange rate is forecast not to move into any direction in the coming month, as there are various risk factors as well.

This report was prepared based on economic data as of June 3, 2019.

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