

Mizuho Dealer's Eye

June 2022

MIZUHO

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Mizuho Bank, Ltd.

Global Markets Sales Department

U.S. Dollar – June 2022

Expected Ranges

Against the yen: JPY125.00–132.00

1. Review of the Previous Month

The dollar/yen pair hit a high of 131.35 yen in the first half of May before dropping back thereafter.

After opening the month trading around 130 yen on May 2, the pair moved with a lack of direction on May 3 ahead of the Japanese Golden Week holidays and the FOMC meeting (May 3–4). At its closely-watched meeting on May 4, the FOMC implemented a +50bps rate hike and it decided to commence quantitative tapering (QT). This was broadly as expected, though, while FRB chair Jerome Powell appeared to rule out a future +75 bps hike during his press conference, so the currency pair plummeted to 128.62 yen. After a round of selling, the pair surged temporarily to 130.55 yen on May 5 as the dollar was bought on high US interest rates. The US April employment data was released on May 6. The nonfarm payrolls figure beat expectations, but the market reaction was muted and the pair moved in a range around 130 yen.

The pair temporarily hit 131.35 yen for the first time in around 20 years on May 9 as the greenback was bought on rising US interest rates, but it then dropped back to the lower-130 yen range on position adjustments. The pair then weakened to the upper-129 yen level on May 11 as US long-term interest rates fell. These rates continued falling on May 12 as US long-term interest rates fell, with the pair dipping to 127.54 yen for a time, though it bounced back to the mid-129 yen mark on May 13 as US stocks and interest rates rallied.

The pair slid to the upper-128 yen level on May 16 on the weak results of some Chinese economic indicators, though it then rebounded to the mid-129 yen mark for a time on rising US interest rates. Risk aversion then waned on May 17 on reports that the number of Covid-19 cases in Shanghai was falling. The pair temporarily climbed to 129.78 yen as US interest rates rose and the US posted some healthy April retail sales data and industrial production data. However, the pair then fell to right around 128 yen on May 18 on some weak US April housing starts data and plummeting US stocks. The pair rallied to the upper-128 yen mark on May 19, though this trend was short-lived and the pair then fell temporarily to 127.03 yen as US long-term interest rates dipped below 2.8% on concerns about an economic slowdown. The pair was then supported by the cross yen to hit 128 yen.

The pair dropped to the lower-127 yen level on May 23, though it returned to the upper-127 yen mark as risk aversion eased after President Biden talked about lowering tariffs on Chinese products during a US/Japan head-of-state meeting. The pair rose to 128.08 yen for a time on May 24, though it then fell sharply to temporarily hit a monthly low of 126.37 yen as the greenback was sold on some weak US May PMI data. The pair was bought on the dip on May 25 and it then strengthened to the mid-127 yen level after FRB deputy head Lael Brainard made some hawkish comments about tackling inflation. The yen was bought and the pair fell to the mid-126 yen level on May 26 after Bank of Japan (BOJ) Governor Haruhiko Kuroda hinted at an exit strategy in his responses to questions from the Diet, though the pair bounced back to the lower-127 yen mark on rising US interest rates. On May 27, the pair fell to 126.68 yen on position adjustments ahead of the weekend, though its room on the downside was capped.

With the US on holiday on May 30, the dollar was bought and the currency pair climbed to the upper-127 yen mark. It then rallied to the 128 yen range during Tokyo trading time on May 31 as the greenback was bought on real

demand. It was then sold back to the mid-127 yen mark, though the dollar was bought again during overseas trading time, so the pair strengthened to the upper-128 yen level.

2. Outlook for This Month

The dollar/yen pair is expected to trade firmly in June. As expected, the FOMC implemented a 50bp rate hike at the start of May, though the pair's downside was then tested as US stocks fell after the markets reacted badly to the fast pace of tightening, with sentiments also sliding as stocks fell globally on concerns about stagnation of economic activity in China after several major cities instituted lockdowns to tackle Covid-19. The pair's downside was pushed lower for three straight weeks, with the pair temporarily dipping to the mid-126 yen mark on May 25. However, the pair had undergone a one-sided rise from April, which partially explains the recent slide. Furthermore, there now seems to be some buying on the dip and real-demand dollar buying. Energy costs remain high too, while prices have risen on supply concerns related to the Ukraine situation. This is leading to rate hikes, not only in the US but also in Europe and across the globe. With the cross yen also moving firmly, the dollar/yen pair looks set to climb this month.

As for monetary policy, each country is now moving down the path of rate hikes as mentioned above, with Japan standing alone with its adherence to monetary easing. The yen will remain relatively bearish until this situation changes. Even if global tightening leads to concerns of a recession and worsening sentiments, the yen is losing its attractiveness as a refuge currency. The yen rose on May 26 after BOJ governor Haruhiko Kuroda said Japan could pursue an exit strategy that would ensure market stability, though he also reiterated that the BOJ should remain in easing mode for the time being. Japanese trade with the rest of the world could pick up when restrictions on entry are eased on June 10, with other prices besides energy costs potentially rising on expectations for a domestic demand recovery. If this scenario does come to pass, though, it could prompt discussion about tweaking Japanese monetary policy on expectations for an overshoot (once transitory factors are removed from the equation), so caution will be needed. However, regarding the US monetary policy, the FOMC is expected to implement another substantial 50bp rate hike when it meets over June 14–15. With the US May CPI data also likely to point to strong inflation on its release on June 10, the FOMC could drop hints about large-scale rate hikes in subsequent meetings. As such, the currency pair is expected to move bullishly in June.

Dealers' Market Forecast

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

Bullish on the dollar	14 bulls	131.00 – 125.25	Bearish on the dollar	6 bears	130.50 – 124.50
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* Ranges are central values

Yano	Bull	132.00 – 125.00	After moving bearishly since March, the yen is regaining some composure. However, it looks set to remain bearish on the divergent monetary policies and fundamentals of Japan and the US. There will also be robust dollar buying on any dip, so the dollar/yen pair's downside look set to move firmly. Investors will probably test the pair's topside again this month.
Ushijima	Bull	132.00 – 125.00	US interest rates fell and the greenback stopped rising late May as excessive expectations for rate hikes waned. After a round of adjustment, though, the dollar/yen pair looks set to move firmly. With US and Japanese monetary policy continuing to move in different directions, the pair's downside could hit 125 yen.
Tsutsui	Bear	131.00 – 122.00	The markets will probably focus on slowing US consumer spending on the back of a housing market slump. If this happens, the dollar/yen pair's downside might be tested on the market's excessive response. The pair could float around 125 yen or even lower.
Kato	Bull	129.00 – 124.00	The markets will see some adjustment after attempts on the dollar/yen pair's topside. When the pair dips below 130 yen, there will be strong appetite for yen buying among exporters seeing the movement of personal money and converting profit-taking foreign-currency-denominated insurance into yen. Yen bearishness from March lasted for a surprisingly short time, which also suggests the pair will undergo some adjustment toward the summer season.
Yamazaki	Bull	130.00 – 126.00	The dollar/yen pair is expected to rise in June. The pair will continue to trend higher on the divergent monetary policies of the FRB and BOJ. The yen will be pushed higher for a time as Japan relaxes its entry rules for foreign tourists, but the basic situation remains unchanged, so after sliding, the pair will grow firmer before eventually bouncing back again.
Ito	Bear	131.00 – 125.00	The fundamentals have improved since the release of the FOMC minutes, but the FRB will probably continue to lift rates sharply up to the neutral rate in response to rising inflation. Concerns about an economic slowdown are growing on rising interest rates, with the dollar/yen pair set to move with a heavy topside as the greenback rises and stocks fall.
Yamagishi	Bull	131.00 – 126.00	The dollar/yen pair will move firmly on the divergent monetary policies of the US and Japan. Japanese inflation is limited to the supply side and the BOJ remains convinced it will be a transitory phenomena. Meanwhile, the FRB is clearly prioritizing the fight against inflation. Concerns of a slowdown will eventually grow when rising prices are reflected in the firm US economy (like consumer spending or employment).
Omi	Bull	130.00 – 125.00	The dollar/yen pair will move in a range between 125–130 yen this month. The dollar will continue rising and the yen falling on the divergent monetary policies of the US and Japan, but the pair's topside will be held down by concerns of a US recession and peaking inflation.
Ueno	Bull	131.00 – 125.00	There remains a dearth of reasons to buy the yen. The Dollar Index has stopped rising, but the dollar/yen pair could be supported by the movements on the euro/yen pair following the ECB's sharp turn toward rate hikes.
Kai	Bull	130.00 – 126.00	May corporate settlement results pointed to deep-rooted concerns about inflation, but some retailers posted strong results toward the end of the month, while US consumer spending and so on also moved firmly. Expectations for rate hikes will probably rise again toward the June FOMC meeting.
Onozaki	Bull	132.00 – 126.00	The dollar/yen pair moved bearishly in May, but this phase of adjustment will take a breather in June. The pair will be pushed down by US economic headwinds and bearish US stock movements, but it will not fall sharply. The pair will probably rise again to pare back its May losses.

Harada	Bear	129.50 – 121.50	The US continues to face cost push inflation, with the US economy being pushed down by policies to keep inflation in check. US risk assets bounced back late May, but the dollar/yen pair is likely to fall on renewed risk aversion in June.
Oba	Bull	130.00 – 126.00	The dollar/yen pair will move firmly in June. After hitting 131 yen on May 9, the pair fell back, though it has been supported at its 50-day moving average. It has approached the ceiling of the 'cloud' in the daily Ichimoku Kinko Hyo trading chart and will probably move around 127–129 yen in June.
Katoono	Bull	132.00 – 125.00	Inflation will continue rising on soaring energy costs and logistics logjams. The dollar will be supported by expectations that the FOMC will hike rates at a faster pace from its June meeting. Japan is standing out for its accommodative monetary policy, with the dollar/yen pair also set to move firmly as the yen continues to see some comparatively heavy selling.
Kobayashi	Bull	132.00 – 124.50	After hitting a high of 131.35 yen at the start of May, the dollar/yen pair fell back. However, the FOMC has pledged to institute 0.5% rate hikes at successive meetings going forward, so investors will probably try testing the pair's topside again in June. Nonetheless, the pair will move with a heavy topside on selling to lock in profits around the 130 yen mark.
Henmi	Bear	130.00 – 125.00	The yen looks set to continue moving bearishly on the divergent monetary policy stances of the US and Japan together with supply and demand conditions. Short positions have piled up since March and the pair has also risen on technical factors, but shadows are starting to emerge and the time seems ripe for some adjustment.
Otani	Bull	130.00 – 126.00	The dollar/yen pair was adjusted on falling US stocks in May, though its slide will probably be halted in June. The BOJ remains in easing mode, so the yen will continue to be sold on the divergent monetary policies of the US and Japan. The pair will rise again with an eye on 130 yen.
Suzuki	Bull	131.50 – 125.50	The yen fell sharply for several months, though this trend has now eased off. Nonetheless, there remains strong yen-selling pressure on divergent monetary policies and Japan's trade deficit, for example. It is only a matter of time before investors test the pair's topside.
Kimura	Bear	129.50 – 125.00	The markets are pricing in successive FRB rate hikes, but if the FRB accelerates the pace of tightening, it will need to do so in a way that does not prompt concerns of an economic recession. Yen selling could also be restrained by BOJ governor Haruhiko Kuroda's comments about an exit strategy.
Okuma	Bear	131.00 – 124.00	With concerns rising about FRB tightening, there is growing uncertainty about the direction of the US economy. There are also growing concerns that rates might be lifted at a slower pace, with the dollar/yen pair also weighed down by sliding US long-term interest rates. As such, the pair's downside looks set to steadily edge lower.

Euro – June 2022

Expected Ranges

Against the US\$: US\$1.0650–1.0900

Against the yen: JPY136.00–139.00

1. Review of the Previous Month

In May, the euro/dollar pair temporarily fell to around \$1.0340 for the first time since January 2017, though it then rose to the \$1.070 range for a time on a series of hawkish comments by ECB officials.

Trading was thin on the ground at the start of the month with several markets on holiday. During this time, the pair fell to \$1.0491 on news that the EU would be releasing detailed guidance related to payments for Russian gas in the next few days. The pair then rallied to \$1.0578 on May 3 amid dollar selling. Several ECB officials then dropped comments about monetary policy, but with the results of the FOMC meeting due the following day, the pair moved in a narrow range. The pair fluttered up and down on the FOMC results, but the greenback was sold in the end, so the pair climbed to around \$1.063. The pair fell to \$1.0483 in the latter half of the week on dollar buying, though its fall was halted as investors focused on the \$1.0470 support line, with the pair then bouncing back to the mid-\$1.05 mark. The pair continued moving around \$1.0580 after the release of the US April employment data before closing the week trading at the mid-\$1.05 level.

The pair opened the following week trading around \$1.0535 on May 9. It then rallied temporarily to a weekly high of \$1.0592 on a sense of relief after Russian president Vladimir Putin did not make a war declaration during the Victory Day holiday. However, risk aversion grew in the latter half of the week after stock markets fell sharply, so the pair dropped to \$1.0354 for a time to hit its lowest level in roughly five years and four months. The pair rallied to \$1.0419 on May 13 as stocks were bought back across the globe. It then dropped back to \$1.0349, close to its January 2017 low of \$1.0340, though at the week's end it recovered to \$1.0412.

The pair opened the week beginning May 16 trading around \$1.0405. The pair fell below \$1.04 to hit \$1.0390 for a time as the dollar was bought on concerns about a Chinese economic slowdown. On May 17, Klaas Knot, president of the Dutch central bank, voiced support for a July rate hike. With the UK and EU also releasing some bullish economic indicators, the currency pair strengthened to the mid-\$1.05 mark. European stocks fell sharply and the eurozone April CPI data dropped below expectations on May 18, so the pair dipped under \$1.05 to hit \$1.0460. The euro was bought back on May 19 as US long-term interest rates fell, so the pair rose to \$1.0608. European stocks then weakened, though, so the pair moved with a heavy topside to close the week trading at \$1.0569.

At the start of the week beginning May 23, the euro was bought on hawkish comments by the ECB president, so the pair topped its recent high of \$1.0655 to hit \$1.0692. It then topped \$1.0700 on comments by ECB officials on May 24 before rising to \$1.0748. On May 25, ECB board member Fabio Panetta voiced cautiousness about tightening. The pair dropped back and the euro was sold. As the pair's topside edged lower, the pair dipped below \$1.070, though the greenback was sold again on May 26, so the pair bounced back to \$1.070. After rising to \$1.0765 on May 27, the pair fell back on selling for profit taking and it then floated in the lower-\$1.07 range. With the US on holiday on May 30, the pair moved firmly around \$1.0750. The dollar was bought at the month's end, so the pair trade with a heavy topside.

2. Outlook for This Month

The euro/dollar pair looks set to move firmly in June. While monitoring the Ukraine situation, the pair will be swayed by market expectations for US and European monetary policy.

In a surprise blog post on May 23, ECB president Christine Lagarde suggested that the APP may be wound down as early as the third quarter. She also hinted that rates could be lifted in July, with negative interest rates also brought to an end over July–September. The deposit facility rate currently stands at -0.50%, but the ECB's president's comments suggest the rate will be lifted out of negative territories at the two ECB Governing Council meetings set to take place in July and September. Several ECB officials then dropped comments about rate hikes, perhaps with an awareness of the need to communicate with the markets. The Ukraine situation remains a worry, but with July drawing closer, the euro turned bullish at the end of May, with the currency pair rallying to \$1.07 on expectations for ECB monetary policy normalization.

The ECB will probably implement a 25bp rate hike on July 21. The economy faces considerable headwinds from Covid-19 and the Ukraine situation, so most ECB officials will probably opt to lift rates at a gentle pace. The ECB implemented rate hikes in the face of soaring energy costs in July in both 2008 and 2011, but these hikes were both followed by painful events, namely the global financial crisis and the European debt crisis. There will be some within the ECB who will be opposed to any large-scale rate rises in July. Unlike March and April in 2022, meanwhile, concerns are now growing about a global economic slowdown, while expectations for US rate hikes are waning and the currency pair's movements have switched to dollar bearishness and euro bullishness. Given this, there are probably concerns that financial conditions might tighten more than expected if the ECB lifts rates by 50bp. As such, it will probably be more appropriate for the ECB to implement 25bp rate hikes in July and September. The expected inflation rate (a figure derived from inflation markets) will probably need to top recent highs and continue rising for the ECB to consider a 50bp rate hike. The expected inflation rate is currently moving above the 2% target, but it is trending downward, so a 50bp hike seems unlikely right now. On May 25, Klaas Knot, president of Dutch central bank, suggested the ECB was monitoring the expected inflation rate when he said that “we can only afford gradualism if inflation expectations remain well-anchored.”

The euro/dollar pair is currently moving close to the floor of the ‘cloud’ in the daily Ichimoku Kinko Hyo trading chart. The mid-\$1.07 mark will probably be a comfortable level for some correction to the pair's recent sharp rise. However, the conversion line is edging toward topping the base line, so if the current level steadily moves upwards, the mid-\$1.07 mark could switch places with the ceiling of the cloud mid-June, with the markets set to steadily price in an ECB Governing Council rate hike going forward.

Dealers' Market Forecast

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

Bullish on the euro	17 bulls	1.1000 – 1.0550	Bearish on the euro	3 bears	1.0900 – 1.0350
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* Ranges are central values

Yano	Bull	1.1000 – 1.0600	In her blog post, ECB president Christine Lagarde wrote about (1) an early end to the APP, (2) a July rate hike, and (3) an end to negative interest rates. As such, the euro/dollar pair is now moving firmly. The pair will continue to move firmly on speculation about faster moves towards normalization.
Ushijima	Bull	1.1100 – 1.0400	A number of ECB officials have made hawkish comments, so a July 50bp rate hike cannot be ruled out. This marks a contrast to the US, where expectations for rate hikes are waning, with the euro/dollar pair set to move firmly this month.
Tsutsui	Bear	1.0900 – 1.0200	In May, the markets began pricing in ECB rate hikes within the year, but with the European economy facing stagflation, the markets will probably factor in the maintenance of low interest rates once again. Investors are likely to test the euro/dollar pair's downside.
Kato	Bull	1.1000 – 1.0500	A lot will depend on the Ukraine issue. If Russia moves towards a ceasefire, the euro could continue rising, but the war continues to rumble on, so it is hard to make any prediction about the future. The euro/dollar pair's upside will be weighed down by technical factors too, so while the market will remain bullish on the whole, the pair will probably trade in a range eventually.
Yamazaki	Bull	1.0950 – 1.0600	Investors will focus on central bank stances. With the expected inflation rate topping 2%, the ECB looks set to implement a rate hike in July, with the euro likely to move higher. However, this move has already been priced in to a considerable extent and the pair could weaken as expectations wane, so caution will be needed.
Ito	Bear	1.0900 – 1.0400	With eurozone inflation stubbornly high, ECB members have made several hawkish comments recently. The ECB is expected to lift rates in stages from July onwards, but risk sentiments will need to improve for the euro to rise. The euro/dollar pair will be swayed by the pace of US monetary normalization.
Yamagishi	Bull	1.1000 – 1.0500	The euro/dollar pair will probably move firmly as the ECB steers monetary policy towards tackling inflation. The CPI data has hit record highs for six straight months. With the ECB also forecasting long-term inflation of over 2% in April, anticipation is growing that prices will rise for a prolonged period. Perhaps the ECB's concerns about inflation were behind ECB president Christine Lagarde's unexpected blog post on May 23 about future rate hikes.
Omi	Bull	1.1000 – 1.0500	The euro will rise on expectations for an early ECB rate hike. The greenback will also be sold on US recessionary concerns and peaking inflation, with the euro/dollar pair set to strengthen in June.
Ueno	Bull	1.1200 – 1.0500	Since early May, ECB officials have been laying the groundwork for a July rate hike. With the markets also growing more sensitive to this topic, the euro is likely to remain bullish in June. Russia continues to pose a risk.
Kai	Bull	1.0900 – 1.0600	The euro was bought after ECB president Christine Lagarde hinted in a blog post that the APP might come to an end in July, with rates also being lifted that month. With wages also rising, the ECB might grow even more hawkish, with investors likely to continue buying the euro.
Onozaki	Bull	1.1200 – 1.0500	The ECB will probably lift interest rates in stages from July. The Ukraine situation is still concerning, but it will become less of a market theme. Investors have already priced in FRB rate hikes, so the euro will probably be bought on ECB tightening.
Harada	Bear	1.0900 – 1.0350	The euro continues to be weighed down by the Ukraine situation and sanctions on Russian oil exports, for example. Though the EU is inclining in a hawkish direction, it is not providing enough support. This year's trend will continue into June, with the euro set to edge lower.

Oba	Bull	1.0900 – 1.0650	The euro/dollar pair looks set to move firmly in June. The euro was sold until recently on the Ukraine situation and the divergence between US/EU monetary policy, but the situation changed in May following a series of hawkish comments by ECB officials. The pair is likely to move firmly ahead of rate hikes in July and September.
Katoono	Bull	1.1100 – 1.0550	Concerns about long-term inflation have risen on recent CPI results, with expectations growing that the ECB will move faster to normalize monetary policy. After hitting its lowest level in around five years, the euro/dollar pair will probably be bought back on hawkish comments by ECB officials.
Kobayashi	Bull	1.1200 – 1.0400	Inflation has risen further in the eurozone and this is placing pressure on the ECB to move swiftly away from its easing policies, with the euro likely to be bought in June. However, the euro could be sold if the Ukraine situation deteriorates, so caution will be needed.
Henmi	Bull	1.0900 – 1.0600	Expectations for early ECB rate hikes have risen following a blog post by ECB president Christine Lagarde. Prices are also rising sharply, with the ECB moving in a hawkish direction, so the euro looks set to move firmly this month.
Otani	Bull	1.1000 – 1.0600	The euro will be supported by hawkish comments from ECB president Christine Lagarde and other ECB officials. Investors have priced in US rate hikes to a considerable extent, so there is unlikely to be much more pressure for dollar buying, with the euro/dollar pair expected to move firmly in June.
Suzuki	Bull	1.0950 – 1.0600	Concerns about the Ukraine situation continue to smolder away, but the ECB has shifted in a hawkish direction, so the euro will probably switch track after moving bearishly these past few months. The single currency will probably be bought ahead of moves to end the APP and lift rates in July.
Kimura	Bull	1.0900 – 1.0650	The ECB Governing Council and the FOMC will both be meeting this month, so investors will be monitoring their respective stances. Expectations for policy normalization are growing after ECB president Christine Lagarde dropped hints about a rate hike. The dollar might be bought when stock markets rally, but the euro/dollar pair's room on the downside will be capped.
Okuma	Bull	1.1000 – 1.0500	The ECB has clearly shifted in a hawkish direction in the face of surging inflation and it has dropped hints about rate hikes in July and September. The euro will also be susceptible to buying on rising expectations for Chinese economic normalization after lockdowns are eased, with the euro/dollar pair set to move firmly in June.

British Pound – June 2022

Expected Ranges

Against the US\$: US\$1.2400–1.3000

Against the yen: JPY157.00–164.00

1. Review of the Previous Month

The pound fell against the dollar and yen last month before rallying from mid-May onwards. Though it remained at 10-month lows against the greenback, it stayed at its highest levels against the yen since the Brexit referendum of June 2016.

During this time, the UK media, etc. was swayed by news that the UK had the worst inflation in the G7. At +9.0% year-on-year, the UK April CPI data was indeed the highest in the G7. The pound fell sharply last month on the clear downswing in the UK March retail sales figures. This was apparently because household purchasing power fell on declining real wages (with the wages rising at a slower pace than inflation). Sterling fell further on May 5 following the meeting of the Bank of England (BOE) Monetary Policy Committee (MPC), though this downswing was also probably a reaction to soaring prices. As expected, the MPC lifted the base rate by 25bp to 1.00%, but two members hinted at a cessation of rate hikes, with the markets also reacting badly when the MPC sharply downgraded its UK 2023 GDP forecast from +1.2% to 0.0%. The suggestion of an end to rate hikes was read as a sign of BOE timidity when it came to restraining inflation, while the forecast for slower growth was put down to falling real wages and sliding demand.

The pound fell to 155.60 yen on May 12 and \$1.2156 on May 13, with the latter figure marking its lowest level against the dollar in two years since May 2020. Pound selling during this time came as UK foreign secretary Liz Truss threatened to rip up the Northern Ireland Protocol, with the EU also threatening to break off trade negotiations if this happened.

Sterling clearly rallied against the dollar from May 16. The pound also bounced back against the yen and euro during this time, with sterling moving bullishly across the board, though these movements were strongly colored by the dollar's comprehensive bearishness. The dollar was sold against commodity currencies (May 16), the pound and euro (May 17), the yen (May 18) and the Swiss franc (May 19), for example. Commodity currencies were pushed up by soaring commodity prices, while the euro and Swiss franc were bolstered by expectations for rate hikes. On the other hand, it seemed the pound was boosted by the upswing in the UK employment data. However, pressure for corrective dollar selling lay at the heart of these movements. Though sterling also clearly rallied against the greenback, it soon peaked out against the yen and it began falling against the euro from May 18 onward.

Sterling underwent a comprehensive slide from May 24 after the UK PMI data for May (released the same day) swung lower. At 51.8, the services PMI was particularly down compared the previous month (58.9) and market expectations (57.0). This marked the lowest level in 15 months, dating back to the UK's second lockdown at the end of 2020–beginning of 2021. It seems sentiments in the services sector were particularly hard hit by rising labor costs and labor shortages.

2. Outlook for This Month

Amid ongoing adjustive dollar selling, the pound will have further room to rise against the greenback in June, though the pound itself is expected to move flatly with a lack of direction.

Sterling is expected to move flatly because its movements lack consistency. The pound's sharp fall at the end of April was apparently due to the sluggish results of the UK March retail sales figure, with concerns growing about stagnant real wages. However, though the UK April retail sales data (released May 20) clearly beat market expectations, it was not really read as a factor. Furthermore, though the pound's rise on May 17 was apparently due to the warm reaction to the upswing in the UK employment data (as mentioned above), it is hard to imagine the markets being too happy about the falling unemployment rate and the sharp rise in average wages over the first quarter. Though rising wages puts more spending power in the hands of the workforce, they also work to push prices higher, so these results would not have prompted such a warm reaction.

On May 26, UK chancellor Rishi Sunak has announced a number of subsidies, funded in part by a windfall tax on energy companies. Though this move will stimulate consumption, it will also push prices higher and thus prove a mixed factor when it comes to gauging the direction of BOE monetary policy and the UK economy. Many governments face a difficult balancing act in stimulating consumption while keeping inflation in check, but these competing factors will certainly make it harder to discern a direction for sterling.

The results of the BOE MPC meeting will be released on June 16, but UK short-term interest-rate markets have already completely factored in a further +25bp rate hike. As outlined above, though, the BOE is being asked to steer a difficult course between restraining inflation and supporting the economy, so investors will be listening for hints about the pace of rate hikes from the next meeting (August) onwards. There is a broad divide between the hawks and doves within the MPC, while BOE governor Andrew Bailey's position also seems to shift according to the time and situation. Expectations for a slightly faster or slower pace of rate hikes from August onwards are unlikely to lend a clear sense of direction to sterling's movements.

Another closely-watched factor will be the two UK by-elections penciled in for June 23. Both of these are taking place in seats held by the ruling Conservative Party, with at least one seat expected to fall to the opposition Labour Party. If the Tories lose another seat (to the Liberal Democrats), more Conservative MPs will pin the blame on prime minister Boris Johnson, with the markets worried about the political instability that could follow. This instability will initially be read as a factor pushing the pound lower.

Australian Dollar – June 2022

Expected Ranges

Against the US\$: US\$0.6950–0.7470

Against the yen: JPY88.50–95.00

1. Review of the Previous Month

The AUD/USD pair rose to \$0.7266 in the first half of May. It then dropped to \$0.6829 before rallying to around \$0.72 in the latter half of the month.

The RBA board implemented its first rate hike in 12 years when it met on May 3. The cash rate was lifted by 25bp to 0.35% (the markets were expecting a rise to 0.25%). The pair then soared to the mid-\$0.71 range. As expected, the FOMC implemented a 0.50% rate hike when it met on May 4. However, the greenback was sold and the pair climbed to \$0.7265 after FRB chair Jerome Powell said the FOMC were not actively considering a 0.75% hike.

Amid uncertainty in the face of urban lockdowns in China, the dollar was bought as a safe haven currency on May 9, so the currency pair weakened to \$0.6945. With commodity prices falling on May 10, the pair's upside was held down and it fell to around \$0.6940. The pair then swung between the lower-\$0.69 handle and the mid-0.70 level on May 11. The Australian dollar was supported when China's April CPI data beat expectations. However, the US April CPI data also beat expectations and this suggested that high inflation might last for a prolonged period, so the greenback was bought on expectations that the FRB would stick to the path of rate hikes, with the currency pair sliding to around \$0.6965. The inflation-adjusted real average wages data was released at the same time. At -2.6%, the figure remained in negative territories for the 13th straight month. With sharp wages growth being cancelled out by high inflation, the dollar was sold and the currency pair was bought back to the mid-\$0.70 level. After a round of dollar selling, the pair regained the lower-\$0.69 handle by close of NY trading. US stocks fell on May 12 on concerns that FRB tightening might lead to a recession, so the currency pair dropped to the lower-\$0.68 handle.

The pair fell to the upper-\$0.68 level on May 16 after the Chinese April retail sales figure and industrial production data fell sharply on urban lockdowns. The minutes to the May RBA meeting were released on May 17 and they contained hints about further rate hikes. The pair was also supported by bullish US stocks to climb to the lower-\$0.70 handle. Australia's April employment data was released on May 19. The jobs data was down on expectations, but the number of full-time jobs increased and the unemployment rate improved to 3.9% (with the previous month's figure also revised to 3.9%). The Australian dollar was sold for a time, though it then rose to the upper-\$0.70 level. The Labor Party won the Australian general election on May 21, with Australia seeing its first change of government in seven years.

The Australian dollar was also bought on May 23 as a sense of relief greeted news that Australia would avoid a hung parliament (where no party has a majority). The unit was bought further and the pair rose temporarily to the lower-\$0.71 level during US trading time after President Joe Biden mentioned that tariffs on Chinese goods might be lowered. The RBNZ board struck a hawkish tone when it met on May 25. It lifted the policy rate by +50bp to 2.00% while also sharply upgrading its end-of-year interest rate forecast. The NZ dollar rose and the Australian

dollar was also pulled up slightly, though it soon fell back. The Australian April retail sales data was released on May 27. At +0.9%, it rose for the fourth straight month to record another record high. The currency pair then rose to around \$0.72 towards the month's end.

2. Outlook for This Month

The AUD/USD pair is expected to move in a range in June. In May, urban lockdowns were implemented in several Chinese cities as China continued to follow Xi Jinping's zero-Covid policy. It now seems certain that China's GDP will fall sharply below the government's target of around 5.5% and there are growing concerns that GDP will hit its lowest level in 30 years. However, restrictions on mobility will be phased out in June. We will have to wait until July onwards until the demand recovery is fully manifested in the economic data, but as risk sentiments improve, dollar buying will take a breather as funds stop fleeing into safe assets.

The minutes to the May RBA board meeting hinted at further rate hikes, but the May 25bp hike has already had an impact and there is now a growing sense among investors that smaller hikes that originally envisaged may be sufficient to keep a lid on inflation. The reason for this apparently lies in the high indebtedness of Australian households. Floating rate loans are prevalent in Australia's mortgage market, so any rate hikes are immediately reflected in mortgage repayments. Another reason is the waning impact of fiscal stimulus introduced during the pandemic. Furthermore, the inflation data is a lagging indicator, so it is hard to judge whether inflation is being kept in check. This fact has led to concerns that the authorities may end up lifting rates too much.

On the other hand, most observers believe the FRB will continue to raise rates aggressively on concerns about stubbornly high inflation. The markets will probably buy the greenback when they are reminded of the difference between the monetary policies of Australia and the US, but the dollar could be sold if fears grow that the US's high-speed aggressive tightening might lead to a hard landing. In fact, several recent US indicators have deteriorated, including the April existing home sales indicator, the April durable goods orders figure, and the April manufacturing, services, and composite PMIs, with inflationary concerns set to linger. In June, the greenback will be sold as sentiments ease on relaxed lockdowns in China and US indicators continue to deteriorate, so the currency pair will be supported on the downside. However, if Chinese lockdowns drag on, the Australian dollar could fall again, so caution will be needed.

Canadian Dollar – June 2022

Expected Ranges

Against the US\$: C\$1.2500–1.3100

Against the yen: JPY96.00–102.00

1. Review of the Previous Month

The USD/CAD pair opened May trading at C\$1.2846. It hit a monthly low of C\$1.2629 on May 31 and a monthly high of C\$1.3077 on May 12. The pair rose from the C\$1.27 range to the C\$1.30 range from early to mid-May on concerns about faster FRB monetary tightening and Chinese lockdowns. However, it then traded between the C\$1.27 range and the C\$1.28 range in the latter half of the month as fears of recession dropped off due to expectations that the FRB would hike rates at a slower pace in 2022 or even halt rate hikes for a time.

As expected, the FRB lifted rates by 0.5% on May 4. It also announced it would shrink its balance sheet by \$47.5 billion a month from June and by up to \$95 billion a month from September. The accompanying statement was broadly in line with expectations. In his press conference, though, FRB chair Jerome Powell said the FRB was not actively discussing a 0.75% rate at future FOMC meetings. As concerns about rapid monetary tightening eased, US interest rates fell and the greenback was sold, with the currency pair temporarily hitting C\$1.2731. After a round of selling, the pair then returned to the C\$1.28 range on May 5 as US interest rates rose. The Canadian April employment data was released on May 6. The unemployment rate fell to 5.2%, down from the record low 5.3% recorded in March. At 15,300 month-on-month, though, the number of new jobs was down on expectations, with the increase also slowing sharply compared to February and March. With the US also releasing some firm April employment data on the same day, the currency pair strengthened to the C\$1.29 range. Concerns about accelerated tightening grew on the US employment data. With crude oil prices also falling on the deteriorating outlook for the global economy, the Canadian dollar fell further and the currency pair rose to the C\$1.30 range on May 9. The US April CPI data rose by more than expected on its release on May 11. Risk aversion subsequently intensified on concerns about ongoing monetary tightening, so the USD/CAD pair rose temporarily to C\$1.3077 on May 12, with the CAD/JPY pair also falling to 97.986 yen. Oil prices rose from May 13 as China outlined plans to lift lockdowns, with the USD/CAD pair dropping to the C\$1.28 range on May 16. The Canadian April CPI data was released on May 18. It rose at a faster year-on-year pace compared to April and it was also up on forecasts. This led to growing concerns about further monetary tightening. The minutes to the May FOMC meeting were released on May 25. They contained no major surprises, so US interest rates stopped sliding and the currency pair moved at the lower-C\$1.28 mark. Concerns about oil supplies grew on May 26 as US crude oil inventories fell by more than expected and the EU moved to ban Russian oil imports. As oil prices surged, the pair fell to the C\$1.27 range. The pair was trading in the upper-C\$1.26 range as of the morning on May 30.

2. Outlook for This Month

The USD/CAD pair is expected to move in a range between C\$1.25– C\$1.31 in June.

The Bank of Canada (BOC) will be meeting to set policy on June 1, with the FOMC also meeting on June 15. As with several other countries, Canada faces concerns about rising prices across the board, with the BOC expected to hike rates by 0.5% when it meets in June and July. The BOC is forecast to raise rates seven times within the year, with the policy rate set to reach 2.75% by the end of December. The FOMC is also expected to lift rates by 0.5% in both June and July, with seven rate hikes forecast for 2022 and the US policy rate expected to hit 2.75% by the end of December. Some observers expect the FRB to adopt a cautious approach to rate hikes when it meets in September, so economic indicators will attract attention going forward.

With governments moving faster to tighten policy to tackle inflation, there are concerns about a potential global economic downturn, with WTI prices set to fall for a time. However, there remain concerns about supply on the Ukraine situation. As such, prices are expected to remain at highs, with WTI moving between \$95–120/bbl.

The CAD/JPY pair will probably move between 96–102 yen. Two-year Canadian government bonds grew at a slower pace after topping 2.4% at the end of March, but they trended up again to temporarily hit 2.82% mid-May, though this momentum has currently eased off. However, it seems nailed on that the BOC will continue to lift rates, so the yen is likely to continue moving bearishly against the Canadian dollar.

Korean Won – June 2022

Expected Ranges

Against the US\$: KRW 1,230–1,270

Against the yen: JPY 9.901–10.309 (100KRW)

1. Review of the Previous Month

The USD/KRW pair swung up and down in May.

The dollar was bought on rising US interest rates during overseas trading time on April 29, so the pair began May trading at KRW1264.0 on May 2. News then emerged during overseas trading time on May 3 that Russia would be making interest payments on its dollar-denominated sovereign debt. With a sense of optimism also growing regarding the FOMC meeting, US stocks rose and the currency pair fell to KRW1258.6 on May 4. The results of the FOMC meeting were released during early morning on May 5, with the FOMC hiking rates by 50bp, as expected. FRB chair Jerome Powell appeared to rule out a 75bp rate hike, but as the markets began to make sense of the results, a mood of risk aversion welled up on an growing sense that the FRB would not be able to keep inflation in check. The US employment data was released on May 6. The number of people in work had increased, while average hourly wages had risen. These results heightened concerns about accelerating inflation, with the benchmark yield on 10-year US treasuries drawing close to 3.2%, its highest level since 2018. The US CPI data was then released during overseas trading time on May 11. The data was up on expectations and this roused concerns about an economic slowdown on rampant inflation. On May 12, the USD/KRW pair hit a 2022 high of KRW1291.5. However, fears of an intervention by the authorities grew when the pair approached the key KRW1300 mark. With investors also buying stocks on the dip, the currency pair dropped back.

The pair opened the week beginning May 16 trading at KRW1277.0 as risk appetite grew on hopes that inflation was peaking out in the US. KOSPI rose during early trading, but concerns of a Chinese economic slowdown then intensified after the previously-flatlining Chinese retail sales data and industrial production data deteriorated in April. The currency pair rose again to KRW1286.3, but the pair then underwent a double dip and it trended lower.

The minutes to the FOMC meeting were released on May 25. The content was more dovish than expected, so the greenback was sold. On May 26, meanwhile, the BOK lifted its policy rate from 1.50% to 1.75%, with the BOK also hinting at further rate hikes, so the pair fell to KRW1.256.2 by close of trade on Friday, May 27. The pair was pushed down by real-demand won buying at the end of the month and it moved with a heavy topside to close the month trading at KRW1237.2, down 18.7 won compared to the end of April.

2. Outlook for This Month

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

The pair will be swayed by three main factors in June:

(1) FRB policy discussions (about the speed of rate hikes), (2) BOK financial normalization, and (3) geopolitical risk related to Russia and Ukraine.

As for (1), the minutes to the FOMC meeting (released May 25; for the May 4 FOMC meeting) revealed there had been a discussion about a 50bp rate hike, but there was no mention about the possibility of a 75bp rate hike and there was also suggestions that rate hikes might be put on hold in the latter half of the year. This was more than the markets had expected and it served to pour cold water on excessive expectations for rate hikes. Though inflation remains high, there is also a dearth of factors capable of significantly shifting the FRB's position. With the markets also focusing on stagflation fears, it seems US long-term interest rates will remain subdued going forward.

With regards to (2), the BOK lifted its policy rate from 1.50% to 1.75% at the May meeting, with the BOK governor also indicating that inflation was more of a concern than the economy at present. With the BOK also hinting at a 50bp rate hike in August, South Korean interest rates will probably rise this month. However, any sharp rise will have a negative impact on real estate prices and stock markets, so rising rates may not necessarily lead to won buying.

Turning to (3), and inflation is rising as commodity prices climb higher on geopolitical risk related to Russia and Ukraine. However, the markets are becoming less reactive to sudden news, with the situation losing its power as a dollar-buying factor.

Under these circumstances, the pair's downside is expected to edge steadily downwards. Nonetheless, South Korea's current account balance has worsened on rising crude oil prices, while overseas investors continue to sell South Korean stocks on stagflation concerns, so the pair's slide will be a gentle one.

New Taiwan Dollar – June 2022

Expected Ranges

Against the US\$: NT\$28.50–29.50

Against the yen: JPY4.38–4.50

1. Review of the Previous Month

In May, the USD/TWD pair hit its highest level in roughly two years, though it then dropped back.

The pair opened the month trading at TWD29.530. The pair moved in a range as a strong wait-and-see mode took hold ahead of the FOMC meeting. During his press conference, FRB chair Jerome Powell ruled out a 0.75% rate hike, so US long-term interest rates fell and the currency pair dipped to around TWD29.43 on May 5. The situation changed the following day when the Taiwan dollar fell and the greenback was bought as US interest rates rose on concerns about inflation in the US. The pair subsequently rose to TWD29.7. The Taiwan dollar was then sold by overseas investors as Taiwanese stocks fell.

The pair hit TWD29.8 in mid-May as the Taiwan dollar was sold after the Taiwan Capitalization Weighted Stock Index dropped temporarily below 16,000 points on May 10. The markets remained in wait-and-see mode thereafter. The Taiwan dollar weakened on May 12 as Taiwanese stocks fell on rising risk aversion. With importers also buying the greenback, the pair temporarily hit TWD29.854, its highest level in roughly two years. However, it fell back to around TWD29.66 on May 18 as Taiwanese stocks rallied on news that China was expected to ease lockdowns.

Risk aversion eased in the latter half of the month. Taiwanese stocks bounced back and overseas investors bought the Taiwan dollar. Exporters also sold the greenback towards the month's end, so the currency pair edged lower. It fell below TWD29.5 on May 27 and it then hit TWD29.022 for a time on May 30, though it rallied just below the key TWD29 mark and did not drop below TWD29.

2. Outlook for This Month

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

The Taiwan dollar was sold in May and the pair hit its highest level in two years on rising US interest rates and risk aversion, though it then fell back and fell to around TWD29 for the first time in 6 weeks. One worry is export orders. After moving in positive territories for over two years, in April they fell by 5.5% on the same period last year. This fall came on the back of lockdowns in Shanghai, so it will hopefully be a transitory phenomenon that will improve as lockdown conditions are eased.

The Central Bank of the Republic of China (Taiwan) (CBC) will be holding its quarterly Monetary Policy Meeting in June. The CBC hiked rates at the last meeting in March and it also sprung a surprise by lifting rates by 0.25% (after previously hiking them by 0.125%). The minutes revealed that many members supported rate hikes, with voices raised about the danger of inflation and rising asset prices (housing, etc.), though some members were wary of lifting rates too much on concerns that it would lead to rising costs. At +3.38%, the April CPI data topped 3% for the second straight month, thus raising the possibility of another rate hike in June. However, Covid-19 cases

are surging. Though things are not as bad as last year, this trend is putting the brakes on consumption and there are also concerns about an economic slowdown. Taiwan's Directorate-General of Budget, Accounting and Statistics has downgraded its 2022 growth outlook from 4.42% as of February to 3.91%. The CBC has also suggested growth might dip below 4%. With the US continuing to lift rates by 0.5%, investors will be watching to see whether Taiwan hikes rates by 0.25% again or whether it returns to 0.125% hikes with an eye on economic trends.

However, the currency pair will be swayed significantly by US interest rates. Since the turn of the year, there has been a strong correlation between US long-term interest rates and the pair's movements. US long-term interest rates could be swayed if the FOMC discusses when to slow the pace of rate hikes when it meets in June. The currency pair will continue to trade in a range while monitoring US interest rates and investor movements.

Hong Kong Dollar – June 2022

Expected Ranges **Against the US\$: HK\$ 7.8400–7.8500**
Against the yen: JPY 15.90–16.60

1. Review of the Previous Month

Hong Kong dollar spot exchange market in May

HKD spot dropped to its weak-side convertibility undertaking of 7.85 after Fed's 50bps rate hike in early May. The USD-HKD rate spread widening and the rise of carry trade opportunity of long USD/HKD spot was the key driver of HKD weakening. In order to defend the USD-HKD peg, the HKMA intervened in the FX market and bought HKD 17.6bn in total in May. Afterwards, the HKD spot moved away from 7.85 level alongside the USD retracement and rising Stock Connect flow to HK equities. On the data front, HK Q1 GDP shrank more than expected by -4.0%YoY and the unemployment rate jumped to its 10-month high of 5.4% in the midst of 5th wave of Covid spread. On the bright side, the HK growth outlook has been improving as the virus spread comes under control lately.

Hong Kong dollar interest rate market in May

While USD LIBOR curve rose robustly amid Fed's rate hike cycle, HKD HIBOR curve was mixed across tenors. Despite the HKMA's FX intervention, HKMA aggregate balance remained above HKD 300bn, reflecting ample HKD liquidity condition. Front-end rates were steady, with 1-month HKD HIBOR was hovering at around 0.2%. 1-month HKD HIBOR – USD LIBOR spread dropped further to -80bps. As the Fed is set to raise its policy rate aggressively in coming months, 3-month HKD HIBOR jumped to 0.9% from prior 0.73%. 3-month HKD HIBOR – USD LIBOR spread was little changed at around -60bps. With steady HKD front-end rates, HK banks left its prime rate unchanged after Fed's 50bps hike in early May. HKD IRS curve tracked on lower USD IRS curve, as the growing recession concern in the US economy could pull the Fed back into its easing cycle in coming years.

2. Outlook for This Month

Hong Kong dollar spot exchange market in June

As the Fed is set to raise its policy rate by total 1% in coming two months, the USD-HKD rate spread will likely widen further and the carry trade flow will keep USD/HKD spot topping at 7.85 level continuously. The Fed's rapid balance sheet reduction will directly soaked up USD liquidity and the HKMA will need to buy a larger amount of HKD to defend the USD-HKD peg until USD-HKD rate spread narrows. The Stock Connect flow to HK equities has been picking up, as dip buying from foreign and mainland China investors emerges following Chinese leaders' pledges to support the property sector and platform economy. We expect that the HKD spot will be hovering at 7.85 level most of the time in June, while there could be some back-and-forth movement due to HKD purchase from HK-listed Chinese corporate for dividend payment.

Hong Kong dollar interest rate market in June

The HKMA had started to buy HKD to defend the USD-HKD peg and in turn drained HKD liquidity. Yet, the pace of HKD liquidity drainage should remain modest before Fed's likely 50bps hike at next meeting at mid-June. Taking a reference to the experience in the previous Fed's rate hike cycle in 2018, we expect HKD rates to remain low steadily when HKMA aggregate balance stands above the threshold of HKD 100bn. With still ample HKD liquidity condition, HK banks are expected to hold its prime rate unchanged even after Fed's 50bps hike in June. The quarter-end seasonality will drive HKD rates higher briefly. Considering larger aggregate balance outstanding and faster pace of HKD liquidity withdrawal compared to previous cycle in 2018, we project the aggregate balance to fall to below HKD 100bn threshold in Sept/Oct and HKD banks will consider a prime rate hike at that time. The HKD IRS curve will remain soft as interest rate market starts to price in the US recession risk and the Fed may reverse its tightening cycle in coming years.

Chinese Yuan – June 2022

Expected Ranges **Against the US\$: CNY 6.5500–6.8500**
Against the yen: JPY 18.60–20.15

1. Review of the Previous Month

In May, the U.S. dollar/Chinese yuan exchange rate reached the CNY 6.81 for the first time since September 2020, but it remained low thereafter.

After Labor Day in China, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 6.58 level on May 5. The U.S. dollar strengthened during the day, offsetting the depreciation of the U.S. dollar after a press conference by Federal Reserve Board (FRB) Chair Jerome Powell—seen dovish by market participants. On May 6, the U.S. dollar/Chinese yuan exchange rate once reached the upper-CNY 6.69 level.

On May 9, the U.S. dollar/Chinese yuan exchange market opened with a weaker Chinese yuan compared to the closing rate of the previous week, of around the CNY 6.70 level. On the same day, Chinese trade statistics were announced, revealing a weakness in exports. As a result, the U.S. dollar/Chinese yuan exchange rate rose to the CNY 6.73 level. On May 11, the Chinese Premier Li Keqiang hinted at the possibility of using fiscal and monetary measures to stabilize employment and the economy. Furthermore, on May 12, the following day, People's Bank of China (PBOC) Deputy Governor Chen Yulu revealed his plan to strengthen economic stimulus, and this accelerated the depreciation of the Chinese yuan. As a consequence, the U.S. dollar/Chinese yuan exchange rate rose to the CNY 6.79 level. In the morning of May 13, the U.S. dollar/Chinese yuan exchange rate reached the CNY 6.81 level for the first time since September 2020.

On May 16, the U.S. dollar/Chinese yuan exchange market opened trading at around the CNY 6.78 level. Thereafter, major Chinese economic indices turned out to be weak, which led the Chinese yuan to depreciate, and the U.S. dollar/Chinese yuan exchange rate rose and once approached the CNY 6.80 level. However, thereafter, the media reported that Covid-19 restriction measures in Shanghai would be relaxed, while speculation about a recession in the U.S. strengthened as a result of rapid interest rate raises by the FRB. As a result, downward pressure strengthened on the U.S. dollar/Chinese yuan exchange rate on May 19. After falling below the CNY 6.70 level, the U.S. dollar/Chinese yuan exchange rate continued falling on May 20 and reached the CNY 6.66 level.

On May 23, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 6.67 level. On the same day, the media reported that U.S. President Joe Biden was considering cutting customs duties against China, and this led the Chinese yuan to appreciate. Thus, the U.S. dollar/Chinese yuan exchange rate fell to the CNY 6.64 level. Thereafter, toward the second half of the week, market participants started actively selling the Chinese yuan due to the spreading of Covid-19 cases in places such as Beijing. As a consequence, the U.S. dollar/Chinese yuan exchange rate once reached the CNY 6.75 level for the first time in a week. After reaching this level, the trend reversed, and the U.S. dollar/Chinese yuan exchange rate started to fall. On May 27, the U.S. dollar/Chinese yuan exchange rate fell to CNY 6.70 and further to the CNY 6.64 level on May 30.

2. Outlook for This Month

Chinese yuan-buying is forecast to be dominant in the U.S. dollar/Chinese yuan exchange market in June.

Market participants started buying the Chinese yuan when the U.S. dollar/Chinese yuan exchange rate exceeded the CNY 6.80 level after the exchange rate started rising in the middle of April. Therefore, the rise of the U.S. dollar/Chinese yuan exchange rate has stopped for the moment. Even though market participants actively sold the Chinese yuan again at the end of May, the exchange rate did not rise further than the CNY 6.75 level and started to fall thereafter. The rapid rise of the U.S. dollar/Chinese yuan exchange rate was caused by strict anti-Covid-19 restriction measures after the spreading of Covid-19 cases in China that led to an economic slowdown, as well as being caused by an expectation for interest rate hikes in the U.S. that were reflected in the market. On the other hand, as of the end of May, the lockdown measures are coming to an end in Shanghai, even though concerns persist regarding the spreading of Covid-19 cases in other cities such as Beijing. Furthermore, the Chinese government has been announcing a series of economic stimulus measures. Moreover, in the U.S., too, interest rate hikes have already been reflected in the market. Therefore, there is no strong factor to lead the U.S. dollar/Chinese yuan exchange rate to exceed the CNY 6.80 level again. Therefore, the U.S. dollar/Chinese yuan exchange rate is forecast to fall from a short-term perspective.

It is important to note, however, that the Chinese monetary authorities have cut the five-year LPR, the base rate for housing loans, by 15 basis points in May. Thus, from the viewpoint of monetary policy, the Chinese monetary authorities are likely to maintain measures of monetary easing.

Furthermore, from the viewpoint of international balance of payments as well, China's strict trade policy has started leading foreign investor security investment funds to flow out from the Chinese stock and bond markets while also weakening exports in the trade balance. Thus, the factor that supported the appreciation of the Chinese yuan in 2021 has gradually been fading.

Because upside risks have not been completely swept away, market participants should remain careful about volatility in the market.

Singapore Dollar – June 2022

Expected Ranges

Against the US\$: SG\$ 1.3000–1.4000

Against the yen: JPY 91.00–96.00

1. Review of the Previous Month

In May 2022, the Singapore dollar appreciated against the U.S. dollar.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range. While waiting for a Federal Open Market Committee (FOMC) meeting in the U.S., there were few signs of movement in the market. Under such a circumstance, the U.S. dollar/Singapore dollar exchange rate fluctuated at the mid-SGD 1.38 level. Thereafter, the Federal Reserve Board (FRB) announced its decision to additionally raise its policy interest rate by 50 basis points and its plan to start measures of monetary tightening in June. In reaction, risk-taking sentiment strengthened in the market, as these decisions had been already reflected in the market, and FRB Chair Jerome Powell stated that he was not actively considering the possibility of raising the interest rate by 75 basis points at the press conference after the FOMC meeting. As a consequence, the Singapore dollar started to appreciate, and the U.S. dollar/Singapore dollar exchange rate fell to momentarily reach the lower-SGD 1.37 level.

However, thereafter, the trend reversed, and the Singapore dollar started to depreciate against the U.S. dollar. Due to lockdowns in China, market participants were concerned about China with weak economic indices. As a result, the overall Asian currencies weakened. In addition, the April Consumer Price Index (CPI) of the U.S. was announced on May 11, revealing a result higher than the market estimate even though it was lower than the previous month's result. Thus, market participants were concerned about the impact of the recent interest rate raise toward controlling inflation, as well as about an economic slowdown in the U.S. Thus, U.S. stock prices fell while Asian currencies remained weak. Following this trend, the Singapore dollar depreciated, and the U.S. dollar/Singapore dollar exchange rate rose to the SGD 1.40 level toward May 14.

Thereafter, Asian currencies strengthened on May 17. In Shanghai, there were no new Covid-19 cases for a third consecutive day, which is the condition for relaxing lockdowns, and this strengthened risk-taking sentiment in the market. As a result, the Singapore dollar appreciated, and the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.38 level.

Thereafter, toward the end of the month, the Singapore dollar remained stable, thanks to expectations for economic stimulus measures in China. There were also other supporting factors for the Singapore dollar, such as the media report that U.S. President Joe Biden mentioned a possible revision of customs duties against China. Following the appreciation of the Chinese yuan, the Singapore dollar also appreciated, and the U.S. dollar/Singapore dollar exchange rate fell. The U.S. dollar/Singapore dollar exchange rate has fallen below the SGD 1.37 level and was fluctuating at the upper-SGD 1.36 level, as of May 28.

2. Outlook for This Month

In June 2022, the Singapore dollar is forecast to depreciate against the U.S. dollar.

In April, the Monetary Authority of Singapore (MAS) announced its decision to carry out monetary tightening in two phases. As a result, market participants expected the Singapore dollar, which was near the upper end of the NEER policy band, to start fluctuating slightly more freely. However, the Singapore dollar remained near the upper end of the NEER policy band after the announcement on an upward revision of the mid-point and a change on the slope of the NEER policy band toward a stronger Singapore dollar (the Singapore dollar remains strong against the components in the currency basket).

Since April, the Singapore dollar has been depreciating slightly against the U.S. dollar based on the appreciation of the U.S. dollar that has resulted from the rise of interest rates in the U.S. On the other hand, the Singapore dollar has been appreciating slightly against the Chinese yuan and the Malaysian ringgit, which are both considered to be currencies that have a high proportion in the NEER basket of currencies. As a result, the Singapore dollar has been strong in the NEER policy band. However, the appreciation of the Singapore dollar is not likely to continue given the situation in the U.S., which continues to raise its policy interest rate, as well as China, with its persistent concerns over an economic slowdown.

In June, the Singapore dollar is more likely to depreciate, as China is maintaining its measures of monetary easing due to its zero Covid-19 policy, all of which does not seem to be ending, while the U.S. already started to see signs of an economic slowdown. However, toward the second half of the year, monetary policy is likely to change globally (other central banks are likely to introduce measures of monetary tightening, catching up with the U.S., while the FRB can no longer maintain a hawkish stance). Thus, the Singapore dollar is expected to appreciate against the U.S. dollar toward the second half of the year, as is likely to be the case with the overall Asian currencies.

It is also worthy to mention that the MAS is cautious about inflation pressure. However, the MAS can still revise its monetary policy at the next meeting scheduled for October. Thus, the inflation rate and the labor market have not been tight enough to make it necessary for the MAS to hold an extraordinary meeting so as to revise its monetary policy. Therefore, as was pointed out above, the Singapore dollar exchange market is likely to follow the trends of the currencies in the NEER basket.

Thai Baht – June 2022

Expected Ranges

Against the US\$: THB 33.60–34.80

Against the yen: JPY 3.60–3.80

1. Review of the Previous Month

In the first week of May, the U.S. dollar/Thai baht offshore exchange market opened at around THB 34.30, while the Thai market was closed because of a national holiday. Thereafter, the Thai baht appreciated slowly, offsetting the depreciation observed at the end of May.

The Japanese market was closed for consecutive national holidays while there were also some national holidays in Thailand. Thus, there were few transactions in the market. Under such circumstances, a Federal Open Market Committee (FOMC) meeting was held, attracting substantial attention, and an interest rate increase of 0.50% and the start of quantitative tightening were both announced, as had been anticipated in the market. At the press conference, Federal Reserve Board (FRB) Chair Jerome Powell was hesitant about an interest rate hike of 0.75%, and this kept the market from reflecting future interest rate hikes, encouraging market participants to actively sell the U.S. dollar. As a result, the U.S. dollar/Thai baht exchange rate once fell rapidly to approach the THB 34.00 level. Thereafter, market participants expected the U.S. to continue monetary tightening in order to control inflation, and this encouraged these participants to buy the U.S. dollar. Thus, the U.S. dollar/Thai baht exchange rate rallied to the THB 33.40 level at the end of the week.

In the second week of the month, the U.S. dollar/Thai baht exchange market opened trading at around the THB 34.55 level. Due to lockdowns in China, the overall Asian currencies remained weak against the U.S. dollar. The April Consumer Price Index (CPI) of the U.S. turned out to be higher than the market estimate, and this led market participants to worry that the U.S. could rapidly increase its policy interest rate. As a result, the Thai baht weakened, and trading closed at around the THB 34.75 level.

In the third week of the month, the Thai market was closed on May 16 due to a national holiday. The Thai baht continued depreciating against the U.S. dollar. The Chinese economic indices weakened, fuelling concerns over the economic outlook of Thailand as well. As a consequence, the U.S. dollar/Thai baht exchange rate renewed its highest rate of the year, approaching the THB 34.85 level. Thereafter, concerns over lockdowns in Shanghai were mitigated, encouraging market participants to actively buy the Chinese yuan and Chinese stocks. Following this trend, the Thai baht also appreciated against the U.S. dollar, and the U.S. dollar/Thai baht exchange rate once fell below the THB 34.50 level during Asian trading hours. On May 20, capital inflow from foreign investors increased with expectations for an improvement in the tourism sector after the decision to relax the restrictions on domestic economic activities in Thailand in June. As a consequence, the Thai baht appreciated, and the U.S. dollar/Thai baht exchange rate reached the lower-THB 34 level.

In the fourth week of the month, the U.S. dollar/Thai baht exchange market opened trading at around the THB 34.30 level. As the number of new Covid-19 cases decreased in China, risk sentiment was slightly mitigated in the market. Furthermore, U.S. President Joe Biden referred to the possibility of cutting customs duties against China, and this supported the appreciation of the Chinese yuan. Following this trend, the U.S. dollar/Thai baht exchange

rate also continued falling. In the meantime, market participants bought the euro and sold the U.S. dollar, expecting European Central Bank (ECB) Governor Christine Lagarde to put an end to the negative interest rate policy in the third-quarter period. Furthermore, market participants were selling the U.S. dollar as well because of weak economic indices in the U.S. As a result, the U.S. dollar/Thai baht exchange rate stopped rising and once fell to the THB 34.10 level. Thereafter, the U.S. dollar/Thai baht exchange rate continued fluctuating at the lower-THB 34 level.

2. Outlook for This Month

In June, the U.S. dollar/Thai baht exchange rate is forecast to continue fluctuating within a narrow range. Market participants should continue carefully observing the policy interest rates and economic trends in Thailand in order to understand the trends in the U.S. dollar/Thai baht exchange market.

Energy and food prices continue rising globally, while central banks are raising interest rates in major countries as well as countries surrounding Thailand. As a result, some market participants are expecting the central bank of Thailand to raise its policy interest rate as well. However, the central bank of Thailand plans to maintain its policy interest rate at 0.5%—the all-time low—in order to prioritize the continued recovery of the domestic economy. Depending on the recovery of such, it is possible for the central bank of Thailand to raise its policy interest rate by 0.25% either at the end of 2022 or in the first half of 2023.

On May 17, the Office of the National Economic and Social Development Council (NESDC) announced the GDP of Thailand for the first-quarter period, with year-on-year growth of 2.2%. The tourism sector recorded positive growth, recovering from the severe impact of the Covid-19 pandemic and growing out of negative growth of 2.4%. On the other hand, Thailand was at the bottom of the six major countries in Southeast Asia in terms of growth rate for the January–March period. Even though the Thai government remains optimistic about the economic outlook, it is uncertain whether the number of foreign tourists will recover as expected by the government. Also, China is maintaining its zero Covid-19 policy, while the Russian economy is faltering, and the Japanese yen has depreciated significantly. While Thailand usually sees a large number of tourists from these countries, it is not clear whether demand from these countries will recover quickly under the current circumstances. However, market participants might still buy the Thai baht thanks to the fact that anti-Covid-19 restrictions have been relaxed globally, as income in the service sector could increase based on a recovery of tourism, keeping the Thai baht from depreciating further. The most-important turning point would be a revision in monetary policy by the central bank of Thailand for the purpose of controlling inflation and slowing down the depreciation of the Thai baht. Market participants should thus carefully observe any change to the monetary policy of Thailand in the second half of the year, after a long period of monetary easing carried out to stabilize economy, commodity prices, and the foreign exchange market.

Malaysian Ringgit – June 2022

Expected Ranges

Against the US\$: MYR 4.33–4.43

Against the yen: JPY 28.74–30.03

1. Review of the Previous Month

The U.S. dollar/Malaysian ringgit exchange rate did not move significantly in May.

At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange rate fluctuated somewhat violently, as there was a Federal Open Market Committee (FOMC) announcement in the U.S. on May 5 immediately after the Hari Raya holidays in Malaysia. After attracting substantial attention in the market, the outcome of the FOMC meeting in May was almost as had been anticipated, with the first interest rate increase of 50 basis points in approximately 22 years, as well as the start of balance sheet reduction in June. There were opinions that an interest rate increase of 75 basis points warrants further discussion; however, Federal Reserve Board (FRB) Chair Jerome Powell explained that no discussion was held for such a possibility at this time. Immediately after the FOMC announcement, interest rates fell in the U.S., and market participants sold the U.S. dollar. As a result, the U.S. dollar/Malaysian exchange rate fell and once reached the mid-MYR 4.33 level in the morning. However, market participants gradually started buying back the U.S. dollar thereafter, slowing down the appreciation of the Malaysian ringgit. On May 5, market participants bought back the U.S. dollar against other major currencies in the New York market. At the same time, market participants started selling the Malaysian ringgit in the morning, and the U.S. dollar/Malaysian ringgit exchange rate reached the mid-MYR 4.37 level. Then, on May 11, the central bank of Malaysia decided to raise its policy interest rate by 25 basis points. Prior to this, the central bank of Malaysia had maintained its policy interest rate at 1.75% for approximately two years, and thus the decision marked a gradual reduction of measures of monetary easing. The statement released on the same day gave warning to the sharp global rise of inflation pressure while pointing out that domestic inflation is only partially observable. It also explained that the policy interest rate was raised in order to gradually normalize the policy interest rate, which has been at an all-time low, as the domestic economy has been robust.

Toward the middle of the month, the first-quarter GDP of Malaysia was announced on May 13 and turned out to be significantly stronger than the market estimate, fuelling expectation for the second quarter in which economic recovery has been properly accelerating. Thereafter, the April trade statistics were released on May 19, and the electrical and electronics sector was the main driving force. In addition, palm oil and natural gas exports turned out to be strong as well, thanks to a rise in commodities prices. On the other hand, FRB Chair Jerome Powell made a remark that he would not hesitate to raise interest rate rates above neutral if needed, and this led the U.S. dollar to strengthen. Following this trend, the U.S. dollar/Malaysian ringgit exchange rate momentarily reached the MYR 4.4 mark, which has been the psychological turning point.

At the end of the month, the Malaysian ringgit appreciated, following the trend of Chinese yuan-buying in the market after remarks made by U.S. President Joe Biden regarding the possibility of cutting customs duties against China. Then, on May 25, the April Consumer Price Index (CPI) of the U.S. was announced, and the headline inflation rate turned out to be 2.3%—as was anticipated in the market. However, the core inflation rate turned out

to be 2.1%, recording a further increase. This confirmed that economic recovery has led to a price increase in a wide range of sectors, including restaurants, hotels, and entertainment services. In terms of external factors, European Central Bank (ECB) President Christine Lagarde made a remark that its negative interest rate policy would end with interest rate hikes expected in July and September, and this encouraged market participants to buy the euro. Furthermore, the minutes of the May FOMC meeting only stated that an interest rate hike of 50 basis points would be appropriate in the upcoming two meetings, and this led the U.S. dollar to depreciate. Toward the end of the month, some market participants bought the Malaysian ringgit based on actual demand, supporting the Malaysian exchange market. However, at the end of the month, the Malaysian ringgit was weaker than at the beginning of the month.

2. Outlook for This Month

Up until May, the Malaysian ringgit remained weak due to the appreciation of the U.S. dollar as observed since the beginning of the year. However, it seems that the turning point is approaching for this trend to change.

In May, the domestic economic indices of Malaysia turned out to be strong, reflecting the recovery of the domestic economy. The governor of the central bank of Malaysia, Nor Shamsiah binti Mohd Yunus, has also expressed her confidence in the economic recovery of Malaysia and also raised the policy interest rate, which turned out to be a slight surprise in the market. Malaysia has thus started normalizing its policy of monetary easing as introduced under the Covid-19 pandemic. However, on the other hand, the Malaysian ringgit remains weak at the current moment. One of the reasons for this is that the Chinese yuan has been weak due to concerns over economic slowdown as resulted from lockdowns in China, which is the most-important trade partner for Malaysia. Yet, the trend of Chinese yuan-selling has recently somewhat slowed down, and, from a short-term perspective, the Chinese yuan is most likely to remain stable in the times ahead, while it would still be difficult for market participants to buy the Malaysian ringgit, as concerns over the Chinese economic outlook persist, impacting the Malaysian ringgit exchange market.

With regard to external factors, there have certainly been signs for the current trend to change. The strength of the U.S. dollar, which was keeping the Malaysian ringgit from appreciating, has already peaked out. Furthermore, the U.S. dollar interest rate yield curve has flattened, as interest rate hikes before the end of this year have already been reflected in the market.

For these reasons, from a short-term perspective, the Malaysian ringgit is forecast to remain weak, and the U.S. dollar/Malaysian ringgit exchange rate is likely to fluctuate at around the mid-MYR 4.3 level. At the same time, it is also possible for market participants to start buying the Malaysian ringgit, leading to a trend of Malaysian ringgit-buying, based on the healthy economic conditions of Malaysia as well as on expectations for policy interest rate hikes at Malaysia's next central bank meetings, scheduled for July, September, and November.

Indonesian Rupiah – June 2022

Expected Ranges

Against the US\$: IDR 14,300–14,700

Against the yen: JPY 0.86–0.90 (100IDR)

1. Review of the Previous Month

In May, the U.S. dollar/Indonesian rupiah exchange rate rose once and thereafter returned to the level seen at the beginning of the month.

On May 9, the first trading day of the month after a long holiday period, the U.S. dollar/Indonesian rupiah exchange market opened trading at the lower-IDR 14,500 level. The Indonesian rupiah remained weak thereafter with persistent impact from the ban on palm oil trade as announced at the end of the previous month. Furthermore, the Jakarta Composite Index, which remained stable until the end of the previous month, fell sharply, while foreign investors sold Indonesian government bonds, leading Indonesian government bond yields to rise sharply. Following such a trend, the Indonesian rupiah also depreciated against the U.S. dollar. On May 12, after the announcement of the April Consumer Price Index (CPI) of the U.S., the U.S. dollar appreciated further with growing expectations for more interest rate hikes in the U.S. As a consequence, the Indonesian rupiah depreciated, and the U.S. dollar/Indonesian rupiah exchange rate finally reached the IDR 14,600 level. On May 13, at the end of the week, the U.S. dollar/Indonesian rupiah exchange rate remained at the lower-IDR 14,600 level. On May 17, in the following week, the April trade balance of Indonesia was announced, revealing a trade surplus of USD 7.5 billion, which is the all-time high. However, the Indonesian rupiah remained weak. As the overall Asian currencies weakened thereafter, the Indonesian rupiah depreciated as well. On May 18, Federal Reserve Board (FRB) Chair Jerome Powell exhibited a positive attitude regarding interest rate hikes, and this accelerated the depreciation of the Indonesian rupiah on the following day. As a result, the U.S. dollar/Indonesian rupiah exchange rate depreciated to the mid-IDR 14,700 level. However, on May 19, Indonesia President Joko Widodo announced a decision to list a ban on the exporting of palm oil as of May 23. In reaction, the U.S. dollar/Indonesian rupiah exchange rate rallied to the mid-IDR 14,600 level on May 20, the following day. Thereafter, there were few signs of movement in the U.S. dollar/Indonesian rupiah exchange market, as a monetary policy meeting at the central bank of Indonesia was scheduled for May 24. On May 24, the central bank announced its decision to maintain its policy interest rate, and this had already been anticipated by the majority of market participants. Thus, this outcome did not turn out to be a surprise in the market and came with little impact on the Indonesian rupiah exchange market. However, the central bank of Indonesia also announced its decision to further raise the deposit reserve requirement ratio, which had already been raised previously. This confirmed that the central bank of Indonesia has been shifting its monetary policy from monetary easing to monetary tightening, as is being done by a number of central banks in Asia. Toward the end of the month, many market participants expected interest rate hikes by the FRB to slow down in the times ahead, leading interest rates to fall in the U.S. As a result, the Indonesian rupiah rallied, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 14,500 level, as of May 30.

2. Outlook for This Month

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

In the first half of May, the Indonesian stock market, which had remained strong, started to weaken. As investment capital flew out from the Indonesian government bond market as well, the Indonesian rupiah started to weaken. However, the Indonesian rupiah recently rallied again, as the ban on the exporting of palm oil was lifted, while interest rates fell in the U.S. It seems that U.S. interest rates have fallen slightly by too much of a degree, and therefore they could start rising again, albeit to a limited extent.

The persistent uncertainty in Russia and Ukraine has been increasing resource prices. The April trade balance of Indonesia has recorded its all-time high, supporting the Indonesian rupiah exchange market. As it is unlikely for the geopolitical situation to change significantly in the near future, the trade surplus of Indonesia is likely to remain high, and the Indonesian rupiah is likely to remain strong.

Thanks to the stability in the Indonesian rupiah exchange market, the central bank of Indonesia has thus far maintained its policy interest rate at the all-time low level. While central banks are raising their policy interest rate in May in many countries in Asia including India, Malaysia, and the Philippines, the central bank of Indonesia maintains its policy interest rate at the all-time low level, which makes a clear contrast with other Asian countries. The central bank of Indonesia has shared its view at a meeting held in May that the inflation rate is slightly above the range of 2–4% but is still under control. The media reported that the Indonesian government had raised its energy subsidy for petroleum fuel and electricity to 2.9 times as much as the original plan in the budget bill for 2022, and this mitigated concern over inflation. Therefore, the central bank of Indonesia can still wait until an interest rate hike. As the central bank still has an option to raise its policy interest rate as an unused measure against the depreciation of the Indonesian rupiah, it is unlikely for the Indonesian rupiah to depreciate one-sidedly in the times ahead.

For these reasons, the Indonesian rupiah is forecast to remain strong against the U.S. dollar in June.

Philippine Peso – June 2022

Expected Ranges

Against the US\$: PHP 51.00–53.50

Against the yen: PHP 0.39–0.43

1. Review of the Previous Month

There were factors to weaken the Philippine peso, such as the cautious sentiment in the market regarding the decision concerning monetary policy at a Federal Open Market Committee (FOMC) meeting, along with the uncertainty regarding the policy change after the Philippine presidential election scheduled for May 9. As a result, the Philippine peso renewed its recent low, and the U.S. dollar/Philippine peso exchange rate reached PHP 52.500 on May 4 for the first time in approximately three years. The outcome of the FOMC meeting turned out to be not as hawkish as feared in the market. Furthermore, the April Consumer Price Index (CPI) of the Philippines turned out to be 4.9%. Even though this result was above 4.0%—the previous month's result, the Philippine peso occasionally rallied with the support of expectations for interest rate hikes in the Philippines. However, concerns persisted over an economic downturn as well as high inflation, and the deterioration of the market sentiment strengthened downward pressure on the Philippine peso. On May 10, after the presidential election in the Philippines, the Philippine peso recorded its highest daily appreciation rate among Asian major currencies, thanks to a sense of relief after an important national event. However, in the first half of the month, the Philippine peso weakened.

As the April Consumer Price Index (CPI) of the U.S. turned out to be high, market participants confirmed the strength of inflation pressure, growing cautious about further measures of monetary tightening and an economic slowdown in the U.S. Furthermore, risk sentiment in the market deteriorated, as the economic indices of China turned out to be weak in April, confirming a sharp decline in the Chinese economy, and this led the Philippine peso to depreciate. On the other hand, the first-quarter GDP of the Philippines recorded positive year-on-year growth of 8.3%, significantly exceeding 6.8%, which was the market estimate. This fuelled expectations for an early interest rate hike. In addition, overseas Filipino workers remittances reached USD 2.594 billion in March, recording positive growth from the previous month as well as positive year-on-year growth of 3.2%, which supported the Philippine peso. With both positive and negative factors, the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range at around the PHP 52.400 level until a monetary policy meeting was held. On May 19, the central bank of the Philippines held such a meeting and decided to raise its policy interest rate by 25 basis points, as had been anticipated by the majority of market participants. The central bank of the Philippines also revised upwards its inflation outlook for this year and next year. Having seen economic recovery and accelerated inflation, some economists expected an acceleration of interest rate hikes, predicting an interest rate hike of additional 125 basis points before the end of the year. As a consequence, on May 20, the Philippine peso appreciated to its highest level since the end of April.

Market sentiment deteriorated, as the U.S. stock market has been on a downtrend for a long period, while the Chinese economy has been on a decline without signs of bottoming out. Furthermore, the Philippine government revised downward its GDP outlook for this year. These factors encouraged market participants to sell the

Philippine peso. On the other hand, the minutes of the FOMC meeting in the U.S. suggested a further mitigation of the risks of hawkish policy, while the governor of the central bank of the Philippines mentioned the possibility of an additional interest rate hike in June, and this supported the Philippine peso. Thus, toward the end of the month, the U.S. dollar/Philippine peso exchange rate fluctuated within a narrow range, and there was no clear trend in the U.S. dollar/Philippine peso exchange market throughout the month of May.

2. Outlook for This Month

In addition to Russia's persistent attacks on Ukraine, China introduced lockdowns in response to a spreading of Covid-19 cases, both of which have been worsening supply chain problems. Thus, market participants should remain cautious about strengthening inflation pressure in the times ahead, along with persistent uncertainty about a possible global economic slowdown, and this is likely to place weight on emerging currencies in Asia, including the Philippine peso. In the U.S., it has become difficult to expect an interest rate hike of 75 basis points at one meeting unless inflation-related indices record a further rise. However, the situation remains unchanged such that future interest rate hikes depend on inflation. The market has been expecting the announcement of an interest rate hike of 50 basis points during the upcoming FOMC meetings in June, July, and September, and this will be a supporting factor for the U.S. dollar exchange market. Furthermore, there are risks for the Philippine peso to depreciate, as market sentiment could deteriorate and risk assets could depreciate rapidly due to measures of monetary tightening, as market participants are uncertain whether such measures can control the high inflation rate.

The central bank of the Philippines decided to raise its policy interest rate for the first time since 2018 in order to control inflation, based on the strong first-quarter GDP of the Philippines as well as on the outlook that the inflation would accelerate further in the times ahead. The governor of the central bank of the Philippines has explained that the central bank would continue normalizing its monetary policy, even though the cycle of interest rate hikes would depend on economic indices. At the moment, it is likely for the policy interest rate to be additionally raised at a central bank meeting in June. Thus, the Philippine peso has been supported by expectations for the acceleration of interest rate hikes. However, there are also many factors of uncertainty regarding the normalization of monetary policy in the Philippines, as the upper end of the GDP outlook for 2022 was revised downward based on external factors such as interest rate hikes in the U.S. and economic slowdown in China. There has also been a difference between the U.S. and the Philippines in terms of the pace of interest rate hikes. Thus, the Philippine peso is forecast to continue weakening while the U.S. dollar is forecast to continue strengthening gradually in the times ahead.

Indian Rupee – June 2022

Expected Ranges

Against the US\$: INR 75.00–79.10

Against the yen: JPY 1.60–1.73

1. Review of the Previous Month

The U.S. dollar/Indian rupee exchange rate renewed its all-time high in May.

In May, the U.S. dollar/Indian rupee exchange market opened trading at INR 76.46 to the U.S. dollar. As the Chinese yuan depreciated significantly against the U.S. dollar, the overall Asian currencies weakened. On May 4, the central bank of India held an emergency monetary policy meeting and decided to raise its policy interest rate by 0.4% while also raising the deposit reserve requirement ratio to 4.5%. In reaction, the 10-year Indian government bond yield rose to 7.4% for the first time since 2019. Following this trend, the U.S. dollar/Indian rupee exchange rate also fell. On May 4, during North American trading hours, Federal Reserve Board (FRB) Chair Jerome Powell made a remark at a press conference after a Federal Open Market Committee (FOMC) meeting that he was not actively considering raising the policy interest rate by 75 basis points. This was thus seen as a dovish statement in the market, leading the U.S. dollar to depreciate. As a consequence, on May 5, the U.S. dollar/Indian rupee exchange rate depreciated to INR 75.97, which was the monthly low in May. However, the U.S. dollar/Indian rupee exchange rate exceeded the INR 76 mark only for a short time and soon recovered to the INR 76 level. Following the unstoppable depreciation of the Chinese yuan, the U.S. dollar/Indian rupee exchange rate rose sharply to reach INR 76.97 on May 6, the following day.

The Chinese yuan depreciated, and the U.S. dollar/Chinese yuan exchange rate exceeded the CNY 6.74 level in the offshore market. In reaction, on a Monday in the second week of the month, after the weekend, the U.S. dollar/Indian rupee exchange rate significantly exceeded its all-time high (INR 76.98 to the U.S. dollar) as recorded on March 7. The U.S. dollar/Indian rupee exchange rate also exceeded the INR 77 mark at market opening and continued rising to reach INR 77.54. There was a desirable factor at play for the Indian rupee as crude oil prices fell, when market participants expected the demand for crude oil to decrease due to anti-Covid-19 restrictions in China. On May 12, the U.S. dollar/Indian rupee exchange rate rose to reach INR 77.635, renewing the all-time high again.

The Consumer Price Index (CPI) of India thus recorded its largest increase in eight years, and many expect the central bank of India to raise its policy interest rate again at a monetary policy meeting scheduled for June. Under such circumstances, the Indian rupee occasionally strengthened to some extent. However, in the third week of the month, crude oil prices reached their highest level since March this year, and this led the U.S. dollar/Indian rupee exchange rate to rapidly reach INR 77.795, renewing its all-time high yet again (on May 17). Thereafter, market participants confirmed the hawkish contents of the minutes of the monetary policy meeting held by the central bank of India on May 4. As a result, even more market participants expected the policy interest rate to be raised to a great extent. Furthermore, China announced its decision to cut its policy interest rate, and this mitigated risk-averse sentiment in the market, which turned out to be a desirable factor for the Indian rupee.

In the fourth week of the month, it was announced that the foreign currency reserves of India continued

decreasing for 10 consecutive weeks until May 13, reaching USD 593.3 billion for the first time in a year. This confirmed that the Indian monetary authorities had been actively intervening in the market by buying the Indian rupee. On the other hand, it was also announced that there was a monthly net sell of Indian stocks worth USD 5 billion by foreign investors, and this strengthened pressure to sell the Indian rupee. Toward the end of the month, the U.S. dollar/Indian rupee exchange rate generally remained at the same level without moving in any direction. In the end, monthly trading closed on May 30 at INR 77.545.

2. Outlook for This Month

In June, the U.S. dollar/Indian rupee exchange rate is forecast to remain high.

The next monetary policy meeting at the central bank of India is scheduled for June 8. In May, the central bank of India held an emergency meeting to raise its policy interest rate. Furthermore, the policy interest rate was raised by 0.4%—a larger increase than usual. However, the inflation rate in India has been at its highest level since May 2014, as was discussed above. Thus, an increasing number of market participants are expecting the central bank of India to raise its policy interest rate further, as the central bank has the policy of prioritizing the control of inflation rather than the growth rate. Based on our data, the central bank of India is estimated to raise its policy interest rate by 0.35% in June. However, the largest state-owned bank in India and some U.S. banks expect an interest rate increase of 0.5%. Thus, in short, if the policy interest rate is raised by 0.25%, market participants would see it as a dovish decision, leading the Indian rupee to depreciate; while, if the policy interest rate is raised by 0.5%, market participants would see it as a hawkish decision, leading the Indian rupee to appreciate.

In addition, key domestic factors in India include capital outflow from foreign investors. Interest rates are rising globally, while risk-averse sentiment persists in the market due to war and the reintroduction of lockdowns in China. As a result, foreign capital has been flowing out from the Indian stock market for eight consecutive months. Furthermore, in May, there has been a net sell of over USD 5 billion. Thus, in terms of a single month's data, this figure is the highest net sell since March 2020, which was struck by the outbreak of the Covid-19 pandemic. Except for some rare cases in which investors are reinvesting in other assets in India such as bonds, sales of Indian stocks generally mean a capital outflow. Because there are restrictions on foreign nationals taking rupee-denominated funds abroad, they are obliged to convert their funds in rupees into another currency. Therefore, it is certain that there will be strong pressure to sell the Indian rupee in the times ahead. The Indian rupee is likely to remain weak in June also because it is unlikely for market participants to see any change in the current pressure for foreign investors to sell Indian stocks.

However, the foreign exchange market is based on a relational structure of the market. At the end of the day, the trend in the U.S. dollar market has the strongest impact on the U.S. dollar/Indian rupee exchange market. Due to the current appreciation of the U.S. dollar, the currencies of emerging countries in Asia are all weakening. From this point of view, market participants should carefully observe the outcome of the FOMC meeting scheduled for June 15.

This report was prepared based on economic data as of May 31, 2022.

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