

Mizuho Dealer's Eye

September 2022

MIZUHO

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|--------------------------------|----|--------------------------------|----|
| U.S. Dollar | 2 | Chinese Yuan | 22 |
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Mizuho Bank, Ltd.

Global Markets Sales Department

U.S. Dollar – September 2022

Expected Ranges

Against the yen: JPY134.00–142.00

1. Review of the Previous Month

In August, the dollar/yen pair strengthened to hit the 139 yen range.

After opening the month trading around 133.40 yen in Tokyo trading time on August 1, the pair then fell to the mid-131 yen level as concerns about a global economic slowdown intensified on the release of some weak Chinese and Taiwanese economic indicators. The pair fell to a monthly low of 130.40 yen on August 2 as risk aversion grew when House of Representatives speaker Nancy Pelosi visited Taiwan. However, the pair then bounced back to the lower-133 yen mark on hawkish comments by FRB officials. These comments continued on August 3. With the US also releasing some robust economic indicators, the currency pair climbed to the mid-134 yen level. The pair dipped to the 132 yen range on August 4 on expectations for worsening US/China relations on the Taiwan situation. With the release of the US July employment data looming, though, investors gradually slipped into wait-and-see mode, with the pair continuing to move around 133 yen. The US July employment data was released on August 5 and it was up sharply on market expectations, so the pair rose to the mid-135 yen mark. With the release of the US July CPI data just around the corner, the pair moved with a lack of incentive around 135 yen from August 8 to August 10. The CPI data was released on August 10 and it was down on market forecasts, so expectations for a sharp FOMC rate hike receded. US interest rates subsequently fell, with the currency pair plummeting by around three yen to hit the lower-132 yen level. The pair fell to the upper-131 yen level on August 11 after the US July PPI result fell below market expectations. However, US interest rates then rose, so the pair was pulled up to 133 yen. It continued to fluctuate gently over August 12. Risk aversion intensified and the pair dipped to the mid-132 yen mark on August 15 after China and the US released some lackluster economic indicators, though the pair then recovered to 133 yen after US stocks rallied. With US interest rates jostling up and down from August 16, the currency pair climbed to the mid-134 yen level toward August 17. The greenback was bought on August 18 on hawkish comments by several FRB officials, with the pair's topside then hitting the lower-137 yen mark toward August 19. The pair weakened to the upper-136 yen level on August 22 on bearish stock movements and falling US interest rates, though it then soared to the mid-137 yen mark on rising US long-term interest rates and the firm result of the US July Chicago FRB National Activity Index.

The pair temporarily plunged to the upper-135 yen mark on August 23 as the US August Manufacturing and Services PMIs fell below market forecasts. US interest rates then began rising again, so the pair rallied to the upper-136 yen level. With several events now out of the way, the pair moved with a lack of incentives around the mid-136 yen level ahead to the August 26 Jackson Hole symposium. In his closely-watched speech on August 26, FRB chair Jerome Powell made some hawkish comments which dampened speculation that the FRB would hike rates at a slower pace, with the greenback bought as a result. The pair hit 139 yen on August 29 following Mr. Powell's comments. With US long-term interest rates climbing on August 30, the pair hit a monthly high of 139.08 yen. It dipped back slightly toward August 31 to move around the mid-138 yen mark (as of 10 a.m., Tokyo trading time).

2. Outlook for This Month

The dollar/yen pair is expected to move firmly in September.

The first things to consider when gauging the pair's direction are inflationary trends and monetary policy trends. With regards to inflationary trends, there are no signs the Ukraine situation will be resolved any time soon. Sanctions on Russia also encompass natural gas exports, so gas supply and demand conditions have grown tighter, with demand only set to grow entering autumn and winter. The US has a high self-sufficiency ratio when it comes to resources, so the direct impact on the US has been muted. Nonetheless, inflation in the US rose to 8.5% y-o-y in July, in part due to the impact of high inflation across the globe. The CPI figure was down on the previous month (+9.1% y-o-y), which suggests some prices have peaked out. In his speech at the August 26 Jackson Hole symposium, though, FRB chair Jerome Powell said "the historical record cautions strongly against prematurely loosening policy," adding that "a failure to restore price stability would mean far greater pain." Despite touching on the negative impact of tightening on the growth rate and employment conditions, Mr. Powell suggested that monetary policy would remain on its current trajectory. There had been growing speculation that the FRB would cut rates from 2023 onwards. By stressing the FRB's commitment to tightening, though, Mr. Powell's speech dowsed this speculation.

Of course, the greenback will be sold when it seems monetary policy is negatively impacting the growth rate or employment conditions. Nonetheless, prices remain high in Europe owing to the region's heavy dependence on Russian resources, with concerns of a recession shooting up after the Services and Manufacturing PMIs dropped below 50 for two straight months. The potential growth rate also remains low in Japan and the Japanese economy is recovering sluggishly from the pandemic, with US fundamentals moving strongly in comparison.

It remains difficult to make predictions about the Ukraine situation and commodity prices. Based on the above, though, it seems the US will face comparatively fewer risk factors going forward, so investors will probably continue to buy the dollar. With no exit in sight in Japan, meanwhile, there remains a dearth of factors conducive to active yen buying. The pair could even hit the 140 yen range for the first time since August 1998.

Dealers' Market Forecast

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

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| Bullish on the dollar | 11 bulls | 142.00 – 135.00 | Bearish on the dollar | 8 bears | 140.00 – 134.00 |
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* Ranges are central values

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| Yano | Bear | 140.00 – 133.00 | It seems US inflation is peaking out on large rate hikes, but employment conditions remain tight. In the immediate future, the employment data set for release on September 2 is getting attention. If it seems the jobs situation is cooling down, the dollar/yen pair could be adjusted downwards sharply. Yen bearishness will probably be capped going forward. |
| Ushijima | Bear | 140.00 – 133.00 | It is hard to gauge how much the FOMC will lift rates by in September, but it seems US interest rates and the dollar will stop rising on inflationary pressures. Though several FRB officials have expressed caution about inflation, investors should focus more on the possibility of falling interest rates and dollar bearishness. |
| Tsutsui | Bear | 140.00 – 134.00 | The dollar/yen pair will be swayed by the scale of US rate hikes. Investors have priced in a 75bp rate hike in September, so it will be hard for the pair to break above 140 yen. Japan has announced it will normalize policy by accepting more foreign tourists while also reactivating several mothballed nuclear power plants, so the trend of yen bearishness will probably come to an end. |
| Kato | Bear | 140.00 – 135.00 | The dollar/yen pair will face some adjustment entering the latter half of the fiscal year. Yen selling will be curbed as Japan reactivates nuclear power plants while easing restrictions on inbound tourism. Momentum remains on the upside and Japanese monetary policy is unlikely to change for the time being, but falling stock prices suggest the yen could face more buying pressure against the cross yen again. |
| Yamazaki | Bull | 141.00 – 137.00 | The dollar will remain strong. It will continue to be pushed up by divergent central bank monetary policy stances. However, a glance at the dollar/yen pair's movements after the Jackson Hole meeting at the end of August suggest the pair will move with a heavy topside and will probably not top 140 yen to rise further. |
| Ito | Bear | 140.00 – 133.00 | The FRB will continue to hike rates as it prioritizes the fight against inflation. However, the pace of rate hikes will depend on the data going forward. Investors have already priced in rate hikes to the tune of 150bp toward 2023, so the dollar/yen pair will only have limited room to rise on interest rates. |
| Yamagishi | Bull | 142.00 – 135.00 | Inflation has risen on the large-scale monetary easing and economic pressures in the Covid-19 pandemic. The FRB is prioritizing the fight against inflation, so the greenback will continue to strengthen on ongoing US rate hikes. Several other countries are hiking rates too, with the yen likely to be sold as Japan remains the only major country stuck in easing mode. |
| Omi | Bull | 143.00 – 136.00 | The dollar/yen pair will probably rise as the US aggressively hikes policy rates. Concerns about a US recession and peaking inflation have been cancelled out by hawkish comments by FRB officials regarding rate hikes. |
| Ueno | Bull | 142.00 – 134.00 | As described on the previous page (USD Outlook), the dollar/yen pair will continue to be swayed by speculation about US rate hikes, so investors should be on guard against dollar bullishness on the whole. |
| Kai | Bull | 141.50 – 136.50 | The FRB is prioritizing the fight against inflation, with the markets pricing in a 75bp rate hike in September, a 50bp hike in November, a 25bp hike in December and a 25bp hike in February. With rates being lifted at such a fast pace, investors have upgraded their expected end point for US rates. As such, the yen looks set to continue trading bearishly against the dollar. |

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| Onozaki | Bear | 139.50 – 134.00 | US interest rates have risen on FRB rate hikes, but this trend will take a breather, so the dollar/yen pair is unlikely to hit highs in September. The FRB will continue to hike rates this year, but the markets have factored this in to a large extent, so the yen is unlikely to fall further. |
| Harada | Bull | 144.00 – 134.00 | The FRB continues to aggressively hike rates, so the dollar/yen pair will continue to rise. The FRB is prioritizing the fight against inflation, with the pair set to move firmly on the gap between Japanese and US policy. |
| Katoono | Bull | 141.50 – 135.00 | Speculation is growing that the FOMC will lift rates sharply in September on inflationary concerns. As US interest rates rise again and US stocks fall, investors look set to continue buying the greenback. Though the US has released some mixed economic indicators, Europe's indicators all seem to be slowing. This divergence will also support the greenback. |
| Kobayashi | Bull | 142.00 – 135.00 | With several FRB officials making hawkish comments, investors have priced in a 0.75% hike at the September FOMC meeting. However, the BOJ remains in easing mode. Under these circumstances, yen buying seems unlikely, with the dollar/yen pair set to continue moving firmly. |
| Henmi | Bull | 142.00 – 136.00 | As long as the FRB remains in hawkish mode, the dollar/yen pair will move firmly on the diverging monetary policy stances of the US and Japan. Japan is trying to attract inbound consumption and it is also planning to reactivate several nuclear reactors, but these policies will take time to enact. The supply and demand situation also suggests the yen will remain a difficult currency to buy. |
| Otani | Bull | 142.00 – 135.00 | With inflation remaining high in the US, several FRB officials have voiced hawkish comments. Investors are pricing in a 75bp rate hike at the September FOMC meeting, so the dollar/yen pair is unlikely to fall. The dollar will also move comparatively strongly on euro bearishness. |
| Suzuki | Bull | 142.00 – 135.00 | The dollar will continue to climb as the FOMC remains committed to tightening policy. Japan is looking at restarting mothballed nuclear reactors and easing restrictions on foreign visitors, but this has not led to yen buying so far. As such, the dollar/yen pair will continue to move firmly and investors could test its topside. |
| Kimura | Bear | 140.00 – 135.50 | The dollar has risen as the US hikes rates at a faster pace. The greenback will probably rise on growing expectations for rate hikes up until the release of the employment data. However, there is a strong sense of overheating and growing pressure for sell-backs. As such, the dollar/yen pair might fall sharply, so caution will be needed. |
| Okuma | Bear | 140.00 – 134.00 | Interest rates have inverted in the US and there is growing uncertainty about the future, with US stocks also moving bearishly. The markets are pricing in large-scale US rate hikes within the year. Under these circumstances, risk aversion seems to be the only factor supporting dollar buying, so investors will find it hard to test the dollar/yen pair's topside further. |

Euro – September 2022

Expected Ranges

Against the US\$: US\$0.9700–1.0300

Against the yen: JPY133.00–142.00

1. Review of the Previous Month

The euro/dollar pair dipped below parity (1 euro = 1 dollar) in August to hit a low for the year.

After opening the month trading at the lower-\$1.02 mark on August 1, the pair rose to the upper-\$1.02 level on the robust result of the eurozone July Manufacturing PMI. However, the dollar was bought back and the pair dropped to the mid-\$1.01 mark on August 2 on hawkish comments by FRB officials and concerns about deteriorating US/China relations after House of Representatives speaker Nancy Pelosi visited Taiwan. The pair rallied to \$1.02 for a time on August 3 after Germany posted a healthy trade balance for June, though it then dropped back to the lower-\$1.01 level on rising US long-term interest rates. The pair rose to the mid-\$1.02 level on August 4 on position adjustments, but it fell to the upper-\$1.01 mark on August 5 on the strong result of the July US employment data.

With the US July CPI data set for release on August 10, the pair floated around \$1.02 over August 8–9. The CPI data was down compared to market expectations, so the greenback was sold and the pair surged to an August high of \$1.0369. With the US July PPI data down on market forecasts, the pair moved firmly on August 11 too. However, the dollar was bought on August 12 on hawkish comments by FRB officials, so the pair's gains were pared back to the mid-\$1.02 level.

The pair weakened to the lower-\$1.01 mark over August 15–16 on the weak results of the German July wholesale price index and German ZEW Indicator of Economic Sentiment. The eurozone's 2Q GDP was then revised downward, so the pair moved with a heavy topside over August 17 too. The FOMC then released some dovish minutes, though, so the greenback was sold and the pair rallied to around \$1.02. The pair crashed to the upper-\$1.00 mark on August 18 on hawkish comments by FRB officials and bullish US economic indicators. The greenback was bought on August 19 too, with the pair dropping to the lower-\$1.00 mark.

On August 22, Bundesbank president Joachim Nagel voiced concerns about the deteriorating inflation situation. Fears about a European economic slowdown also grew after Russia's state energy company halted gas supplies. All this saw the currency pair plummeting to the lower-\$0.99 level. This trend spilled over into August 23, with the pair temporarily hitting a monthly low of \$0.9901. However, the pair then recovered to the lower-\$1.00 level when the eurozone's August Manufacturing PMI beat market expectations. The pair continued to trade with a heavy topside on August 24 too. The pair recovered to parity for a time on August 25, but it then fell to the mid-\$0.99 level again on the release of the minutes to the ECB Governing Council meeting. The greenback was sold and the pair rose to the upper-\$0.99 mark on August 26 after the US July PCE Deflator dropped below market expectations. The pair was then bought to the upper-\$1.00 mark on reports that several ECB officials supported a 75bp rate hike.

The pair broke through parity again over August 29–30, but with natural gas prices falling and several ECB officials making hawkish comments, the pair continued to trade around \$1.00.

2. Outlook for This Month

The euro/dollar pair will continue to move with a heavy topside in September. Concerns about an economic slowdown increased in August on rising natural gas prices. With business confidence also deteriorating, the pair broke below parity to hit its lowest level since 2002.

Natural gas prices continued to soar in Europe, with Holland's TTF hitting a record high on August 26. This came after Russia's state energy company announced it was shutting down its main Nord Stream pipeline over August 31–September 3, ostensibly for maintenance reasons. Water shortages have also grown more acute on a prolonged European heatwave and this has impacted river transportation. As mentioned above, Russia has curtailed its supply of natural gas, so Europe is considering the idea of producing electricity from coal. However, low water levels will impact coal transportation, with many observers expecting the situation to grow more severe toward winter. Italian prime minister Mario Draghi has said EU leaders should agree a price cap on Russian gas the next time they meet, but the next heads-of-state meeting will not be until October, so in the short term, there will be a shortage of factors capable of reining in gas prices.

With natural gas prices soaring, inflation risk is very real, with market participants expecting eurozone inflation to hit a record +9.0% y-o-y. Several central bank governors have voiced support for a 75bp rate hike at the September ECB Governing Council meeting, with market bets on such a move rising to around 60%. ECB hawkishness could spur on euro buying, but investors have priced in rate hikes to a large extent, so even if the ECB Governing Council implements a 75bp rate hike, any euro bullishness will be muted. If concerns about eurozone stagflation grow on large-scale rate hikes, the euro could be sold further, so caution will be needed.

With Mario Draghi announcing his resignation, meanwhile, Italy will be holding a general election on September 25. The euro will also be hit by rising uncertainty about the political situation.

Based on the above, there appears to be a shortage of euro-buying factors, so the currency pair will continue to trade with a heavy topside. However, the FRB might also slow the pace of rate hikes, so investors should monitor this situation too. The FRB continued to adopt a hawkish stance at the recent Jackson Hole symposium. However, the dollar could be sold and the euro bought if the US releases some weak September employment data or if the FRB hawkishness is absent from the September FOMC's dot chart, etc. Though there is a dearth of euro-buying factors, the euro could be bought on dollar selling, so caution will be needed.

Dealers' Market Forecast

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

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|---------------------|---------|-----------------------|---------------------|----------|-----------------------|
| Bullish on the euro | 6 bulls | 1.0350 – 0.9900 | Bearish on the euro | 13 bears | 1.0200 – 0.9700 |
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* Ranges are central values

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| Yano | Bear | 1.0100 – 0.9900 | There is a growing sense that inflation is peaking out in the US, but concerns about inflation and an economic slowdown continue to grow in Europe on gas supply worries. Amid lingering uncertainty, there is a shortage of reasons to actively buy the euro, with the euro/dollar pair set to trade with a heavy topside. |
| Ushijima | Bear | 1.0300 – 0.9700 | A sense of fulfilment has grown after the euro/dollar pair clearly broke below parity in August. Amid concerns about European inflation, attention is focusing on September ECB rate hikes. The dollar has been bought on FRB rate hikes, but this trend has eased off, so it seems to currency pair will continue to move around parity. |
| Tsutsui | Bear | 1.0100 – 0.8800 | The US continues to lift rates. The ECB may also implement a rate hike in September, but future rate hikes seem unlikely given the situation vis-à-vis commodities and fuel supplies. In fact, the euro/dollar pair looks set to remain bearish as investors move to further price in stagflation. |
| Kato | Bull | 1.0300 – 0.9900 | A lot depends on the Ukraine issue, but there is a growing sense the euro/dollar pair has been oversold from a technical standpoint, with the situation ripe for some adjustment. The ECB will probably lift rates at a more gentle pace than the FRB, so the negative impact on the real economy will be minimized. |
| Yamazaki | Bull | 1.0500 – 0.9900 | Though the FRB and ECB are moving in the same direction, soaring energy costs in the run up to winter will negatively impact the inflation rate and the economy in Europe. However, the euro/dollar pair will probably move bullishly as it recovers slightly after dropping below parity. |
| Ito | Bear | 1.0300 – 0.9700 | The ECB is growing more hawkish in the face of high inflation, but the European economy is more fragile than the US economy and is thus more likely to be hit hard by rate hikes. With stagflation risk also growing, the euro will continue to move bearishly against the dollar, even if the ECB accelerates the pace of rate hikes. |
| Yamagishi | Bull | 1.0400 – 0.9800 | There are concerns about the energy situation and deteriorating economic sentiments, but with inflationary expectations rising in the eurozone, there is a danger the markets could lose confidence in the ECB. Several ECB officials have intervened verbally to restrain inflation and there are expectations the ECB Governing Council will implement a substantial rate hike when it meets in September, so the euro/dollar pair looks set to move firmly. |
| Omi | Bull | 1.0300 – 0.9800 | The euro will be pushed higher by ECB rate hikes. However, Europe faces an energy supply problem and there are also fears about an economic slowdown on rate hikes, so the euro/dollar pair's rise will be capped. |
| Ueno | Bear | 1.0200 – 0.9600 | As autumn and winter looms, the Russian situation shows no signs of improvement and Europe is having trouble finding an alternative supplier of natural gas. Inflation remains high and there is a risk of an economic recession, so investors will find it hard to buy the euro. |
| Kai | Bear | 1.0100 – 0.9900 | The euro will move bearishly overall. The ECB and FRB continue to implement a flurry of policies to tackle inflation. If some new factors emerge, the euro/dollar pair could regain parity. Nonetheless, the European economy remains weak and Germany continues to post a trade deficit, so the pair looks set to weaken this month. |
| Onozaki | Bull | 1.0500 – 0.9900 | The euro/dollar pair dropped below parity, but the pair met strong buying demand under \$1.00, with the pair's downside moving firmly. The pair is unlikely to undergo a sharp rise given the unstable Ukraine situation, but it will move firmly on ECB rate hikes and so on. |

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| Harada | Bear | 1.0200 – 0.9800 | The euro/dollar pair will move around parity. As the markets focused on US rate hikes, the euro continued to be sold steadily. However, the eurozone is also struggling with record inflation, so the ECB will probably have to adopt a more hawkish stance, with the pair maintaining equilibrium at its current level. |
| Katoono | Bear | 1.0200 – 0.9900 | The euro will continue to move bearishly on stagflation concerns as inflation remains high on energy supply problems and as expectations grow for a substantial rate hike at the September ECB Governing Council meeting. The pair will probably break below parity again, with investors set to test the pair's downside as the dollar is bought ahead of the September FOMC meeting. |
| Kobayashi | Bear | 1.0400 – 0.9700 | The ECB has said it will lift rates by 0.5% when it meets in September, but a European economic recovery seems unlikely given energy supply problems and so on. Investors have priced in a 0.75% rate hike at the September FOMC meeting, so the euro/dollar pair looks set to continue moving bearishly. |
| Henmi | Bear | 1.0100 – 0.8900 | Though Europe is also moving to lift rates, the European economy is more fragile than the US economy, so the euro is unlikely to rise as long as the FRB remains in hawkish mode. |
| Otani | Bear | 1.0300 – 0.9700 | The eurozone is plagued by high inflation on soaring gas prices. With economic sentiments also deteriorating and stagflation concerns growing, so euro will remain a difficult currency to buy. The euro/dollar pair will continue to move with a heavy topside and it will probably breach parity again in September. |
| Suzuki | Bear | 1.0200 – 0.9800 | The ECB seems to lack any decisive policies when compared to the FOMC. The euro will be a hard currency to buy given the eurozone's parlous fundamentals, with natural gas supplies tight and transportation on the Rhine threatened by low water levels, for example. As such, the euro/dollar pair will remain bearish. |
| Kimura | Bull | 1.0250 – 0.9900 | The euro/dollar pair dropped below parity on Ukraine-related energy problems and rising US interest rates, but the euro faces strong buying pressure at this level, with the pair likely to trend steadily upwards again after the offensive/defensive battle calms down. |
| Okuma | Bear | 1.0200 – 0.9900 | The ECB has adopted a hawkish stance on high inflation, with interest rates rising. There is a shortage of Russian gas supplies, though, with concerns about an economic slowdown also growing on the serious drought, so the euro will probably be sold on risk aversion. |

British Pound – September 2022

Expected Ranges **Against the US\$: US\$1.1400–1.1900**
Against the yen: JPY159.00–164.00

1. Review of the Previous Month

In August, the GBP/USD pair fell to its lowest level since March 2020. Sterling also fell clearly against the euro, but with the yen also moving bearishly, the pound moved with a lack of direction against its Japanese counterpart.

At the start of the month, the markets focused on the results of the Bank of England (BOE) Monetary Policy Committee (MPC) meeting (released August 4). The majority of observers were expecting a +50bp rate hike, though a few were predicting a +25bp hike. In the end, eight members voted to lift rates by +50bp hike (to 1.75%), with the other member voting for a +25bp raise. Though this could be read as a ‘larger-than-expected hike,’ the pound fell sharply directly after the announcement. It seems the markets reacted less to the scale of the hike and the sharp upgrade to the BOE’s CPI outlook (to over 13% y-o-y within the year) and more to the BOE’s forecast that the UK would enter a 15-month recession (from 4Q 2022). As if to support the BOE’s forecast, the UK’s preliminary 2Q GDP figure (released August 12) then slipped into negative territories (though it beat market expectations), while the July CPI figure (also released August 12) recorded a double-digit increase on the previous year for the first time in 40 years (a factor dampening consumption). All this gave investors a reason to sell the pound.

However, sterling’s weakness against the dollar was strongly influenced by the dollar’s comprehensive bullishness. This in turn was due to the sharp rise in the US July nonfarm payrolls figure and average hourly wages figure (both released on August 5). The greenback was also bolstered from mid-September by a series of comments by FRB officials voicing support for ongoing large-scale rate hike, while on August 26 FRB chair Jerome Powell said the FRB would prioritize the fight against inflation, even if it caused the economy to slow to a certain extent. Meanwhile, the pound’s slide against the euro accelerated toward the end of the month as speculation grew from August 26 that the ECB Governing Council would discuss a substantial +75bp rate hike when it met in September. Furthermore, though BOE deputy governor Dave Ramsden dropped clear hints on August 9 that the BOE would continue to hike rates, this was not really read as a factor pushing the pair higher from the BOE MPC meeting.

Another factor weighing down the pound during this time was speculation about the next leader of the Conservative Party. The Tory membership (said to be around 150,000 to 180,000 strong) are favoring Lis Truss, but the markets are not too keen on the current foreign minister. If Truss becomes the leader of the Conservative Party and thus the next UK prime minister, financial markets are concerned about (1) the possibility that items other than price stability (such as a target for nominal growth) will be added to the BOE’s policy targets, (2) the fact that she has pledged to cut taxes in blithe disregard of the current fiscal situation, and (3) a hardline stance towards the EU including a unilateral scrapping of the Northern Ireland Protocol.

2. Outlook for This Month

In September, the pound will continue to fall against the dollar and the euro. However, the pound could bottom out for a time as a new cabinet is formed after the announcement of the Tory leadership election on September 5. Sterling will probably remain deadlocked against the yen with no sense of direction.

Yields of 10-year gilts plummeted by around 70bp from mid to late August (the price of gilts fell). Though the FRB has adopted an aggressive stance towards further rate hikes, yields on US treasuries have only risen by around 30bp in marked contrast to the movements of UK government bonds. Yields of US treasuries are clearly higher than yields on gilts, but the shift in UK yields probably reflects a failure of moves to tackle inflation and concerns about the deteriorating UK fiscal situation. In other words, these movements point to a lack of confidence in BOE monetary policy, with the financial markets also growing more concerned about the direction of fiscal policy management if Liz Truss becomes prime minister as expected. Things are unlikely to shift significantly in the immediate future given these structural factors behind pound bearishness.

However, the pound will probably bottom out from mid-September on a sense the GBP/USD pair is at a good price at its March 2020 low of \$1.1413, with sterling also likely to be boosted by expectations that the UK situation will change. The UK has a parliamentary cabinet system, so policy is unlikely to be managed totally in accordance with the prime minister's wishes (in contrast to how things work in a presidential system like the US has). Furthermore, former chancellor Rishi Sunak won the overwhelming support of Tory MPs in the vote to reduce the number of leadership candidates to two. If Truss does become the next prime minister, she will probably pack the cabinet with her supporters. Nonetheless, it will not be easy to get parliament to agree to policies like tax cuts or the scrapping of the Northern Ireland Protocol. If the markets adjudge that Truss will find it difficult to enact her election pledges after details of the new cabinet are announced, this could create room for a pound rally.

When it comes to UK economic indicators, market participants will be playing close attention to the release of the May–July average wages data on September 13 and the August CPI data on September 14. If the CPI figure swings upwards, then rather than receiving this warmly as a factor likely to accelerate BOE rate hikes, the markets will probably receive the upswing badly as a potential headwind for the UK economy. In fact, the markets will probably react more warmly to rising wages on the basis that this will lead to more spending and thus boost the economy. In this sense, the markets will be pleased if the UK posts some strong August retail sales data (set for release on September 16). The BOE will be meeting to set policy on September 15. At this moment in time, market forecasts are split between a +50bp hike and a +75bp hike, with the pound likely to move bearishly on the former and bullishly on the latter.

Australian Dollar – September 2022

Expected Ranges

Against the US\$: US\$0.6680–0.7200

Against the yen: JPY90.50–97.70

1. Review of the Previous Month

In the first half of August, the AUD/USD pair fell from the lower-\$0.70 handle to the upper-\$0.68 handle before climbing to the \$0.71 range.

The greenback was sold on some bearish US indicators on August 1, with the pair rising to the mid-\$0.70 level. As expected, the RBA board implemented a +50bp rate hike when it met on August 2, though the pair weakened on the board's dovish statement. Geopolitical risk increased when House of Representatives speaker Nancy Pelosi visited Taiwan, with the currency pair dropping to the lower-\$0.69 level. Australia's June employment data was released on August 4, with the Australian dollar rising after Australia recorded a trade surplus on brisk exports. US interest rates soared on August 5 after the US released some better-than-expected employment data for July. The greenback was bought and the currency pair fell to the upper-\$0.68 handle, though it returned to the lower-\$0.69 level at the week's end as stocks pared back losses. The Chinese July trade data was released at the weekend, with imports of iron ore rising. With Australian interest rates also rising, the pair hit \$0.70 on August 8.

The US July CPI data was released on August 10, with the core and composite figures both dropping below expectations, thus confirming that the pace of inflation was slowing. As expectations grew for a slower pace of US rate hikes, interest rates fell and the greenback weakened, with the currency pair topping \$0.71. However, US interest rates pared back their falls on hawkish comments by Chicago FRB President Charles Evans, with the currency pair also rallying to around \$0.7090. In the latter half of the month, the AUD/USD pair fell from the lower-\$0.71 handle to the mid-\$0.68 range. On August 15, the People's Bank of China (PBC) unexpectedly announced it was lowering the rate of one-year medium-term lending facility (MLF) loans to 2.75%, while the seven-day reverse repo rate was cut by 10bp to 2%, with the RMB sliding as a result. China then released some bearish economic indicators, with the greenback also bought on risk aversion after the August NY FRB Manufacturing Index swung lower. The AUD/USD pair subsequently fell to the lower-\$0.70 level as investors tested its downside. Australia then released a 2Q wages indicator on August 17. Though the indicator posted the fastest growth in around eight years, it was still down on expectations, so the Australian dollar was sold and the currency pair temporarily dipped to the upper-\$0.69 level. UK government bonds were then sold after the UK July CPI figure hit 10.1% y-o-y, with US treasuries also falling (and interest rates rising). Investors subsequently tested the AUD/USD pair's downside, with the pair weakening to the lower-\$0.69 level.

The Australian July employment data was released on August 18. The Australian dollar was sold after the number of people in work fell, though the pair's losses were soon pared back. The Philadelphia FRB then released a stronger-than-expected Manufacturing Index for August. The greenback was bought as a result, with the currency pair sliding from the lower-\$0.69 handle to the mid-\$0.68 level at the end of the week.

Shanghai stocks rose sharply on August 22 after the PBC lowered the loan prime rate. This news bolstered the Australian dollar, with the currency pair also supported by rising Australian interest rates and firm commodity prices.

The pair climbed to the lower- $\$0.69$ level, but US stocks then fell and US interest rates rose on concerns about the Jackson Hole symposium, with the pair subsequently breaking below $\$0.69$. FRB chair Jerome Powell made some hawkish comments at the August 26 Jackson Hole meeting, so the greenback rose across the board and the AUD/USD pair plummeted to $\$0.6889$.

Stocks prices were adjusted and the pair fell to $\$0.6841$ on August 29 after the markets adjusted their expectations for US rate hikes in the wake of Mr. Powell's comments the previous week. The pair closed the month trading at the upper- $\$0.68$ level.

2. Outlook for This Month

In September, the AUD/USD pair will probably trade with a heavy topside. The main driver will remain monetary policy trends. Several FRB officials have talked recently about how the tight labor market points the way to rising inflation. If the labor situation remains tight and consumer confidence/household spending remains firm, the pair's topside will probably be held down as the greenback is bought on rising US interest rates.

The US July CPI data (released August 10) suggested inflationary pressure is waning, with market expectations subsequently growing for a bearish shift by the FRB, falling US interest rates, and rising stock prices. However, the hawkish tone of FRB chair Jerome Powell's speech at the Jackson Hole symposium at the end of August poured cold water on these optimistic market expectations. Mr. Powell commented that "restoring price stability will take some time and requires using our tools forcefully," adding "the historical record cautions strongly against prematurely loosening policy."

The markets are expecting the FOMC to implement a 75bp rate hike when it meets over September 20–21. If the US posts some firm August employment data (set for release on September 2), a 75bp rate hike will grow more likely. The currency pair will move heavily if US interest rates then rise.

However, investors should also pay attention to headlines about energy shortages. Water levels are low in the Rhine, while the Nord Stream 1 pipeline keeps swinging between unstable operations and shutdowns. Armed conflict also led to fatalities and injuries in Libya and Baghdad in August and there are concerns the global energy crisis could deepen if fighting hits the production and export of coal, gas and crude oil, for example. If energy prices rise on these concerns, the Australian dollar will be supported in its capacity as a commodity currency. Investors should also pay attention to these kinds of unexpected occurrences.

Canadian Dollar – September 2022

Expected Ranges

Against the US\$: C\$1.2700–1.3300

Against the yen: JPY102.00–109.00

1. Review of the Previous Month

The USD/CAD pair opened August trading at C\$1.2782. The US GDP data contracted for the second straight quarter and the markets read this as proof the US had technically entered a recession. However, government figures and FRB officials said the strong labor market was evidence the US was not entering a recession. In this way, the start of the month was marked by a debate about what exactly constituted a recession.

The greenback was bought slightly on risk aversion on August 2 as US/China tensions soared on news that the speaker of the US House of Representatives had visited Taiwan. The currency pair strengthened to the mid-C\$1.28 level, though it moved with a lack of direction thereafter. Crude oil prices dipped on recessionary concerns on August 4 to drop below \$90 for the first time since Russia invaded Ukraine in February. The US released some firm June employment data on August 5. As speculation grew that the FOMC would implement a 0.75% rate hike when it met in September, the currency pair rocketed to the upper-C\$1.29 level.

The closely-watched US July CPI data was released on August 10. With gasoline prices falling by around 20%, the data was up by 8.5% y-o-y as opposed to forecasts for a 8.7% rise. Stocks rose on a sense that the FRB would slow the pace of rate hikes now that inflation was peaking out, with the USD/CAD pair also plunging from C\$1.29 to the mid-C\$1.27 level on risk appetite. The pair then fell to C\$1.2728 on the robust result of the US July PPI data before moving in a range with a heavy upside.

However, news emerged on August 15 that a Chinese July economic indicator had deteriorated sharply on the real estate crisis and the Zero-Covid policy, with the People's Bank of China (PBC) subsequently cutting interest rates by 10bps. As recessionary concerns flared up again, the currency pair broke above C\$1.29. Canada's July CPI data was released on August 16. At +7.6% y-o-y, the data was in line with forecasts and down on the previous month (8.1%). However, with food prices continuing to rise, speculation grew that the Bank of Canada (BOC) would implement a large rate hike, so the pair weakened to the mid-C\$1.28 mark. The Canadian dollar also rose slightly on August 18 when Canada's June retail sales data rose by a healthy 1.1% m-o-m to beat forecasts for a 0.4% rise. The greenback then appreciated again on a series of hawkish comments by FRB officials.

The pair then moved extremely skittishly on the economic data. The US August composite Purchasing Managers' Index (PMI) was released on August 23 and it revealed that demand had weakened on the sluggishness of the services sector, so the USD/CAD pair subsequently plummeted from C\$1.3025 to the mid-C\$1.29 level. In his closely-watched speech at the Jackson Hole symposium on August 26, FRB chair Jerome Powell said the FRB would continue to tighten policy until inflation was under control. He also said market expectations for rate cuts in 2023 were "premature." After moving wildly from C\$1.29, the currency pair gradually climbed up to top C\$1.30. The pair then topped C\$1.31 again on hawkish comments by FRB officials and firm US economic indicators, with the greenback remaining on an upwards trajectory toward the month's end.

2. Outlook for This Month

Canada's inflation rate rose to 8.1% in June, though it dropped to 7.8% in July on falling gasoline prices. However, the price of food, rents and gas continue to rise. Given the Ukraine situation and supply-chain turmoil, it seems it will take time before prices cool down. Furthermore, gasoline prices will only fall for a short time and they will probably rise again toward winter. Demand for crude oil will also rise when China lifts its Zero-Covid policy.

There are many external factors and it is hard to predict how things will develop. Decisions about the pace of rate hikes will depend on the data, with the markets also likely to be swayed substantially by the results of major indicators. One concern is the Canadian employment data, with the number of people in work falling for the second straight month in the July data. However, with the unemployment rate at a 50-year low of 4.9%, wages are rising. No decision-shaping indicators will be released before the BOC meets to set policy on September 7, so a 75bps rate hike seems nailed on at this moment in time. If this does happen, the Canadian dollar will probably strengthen. The FRB is also expected to lift rates by either 50bps or 75bps. With FRB chair Jerome Powell and several other FRB officials making hawkish comments, a 75bps hike seems more likely, but a 50bps hike is also a possibility depending on the data, so caution will be needed. The currency pair will move erratically until the September 20–21 FOMC meeting, with the September 13 release of the US CPI data likely to attract particular attention. The US will probably release some bullish August employment data on September 2.

With the Ukraine situation dragging on, gas shortages in Europe are growing more acute, with Russia's state-owned energy company Gazprom also announcing it would be closing a gas pipeline to Europe from August 31 to September 3. There are growing concerns that the pipe might be shut down for a prolonged period. With Germany's inflation rate set to deteriorate over the next few months, there are concerns the country could fall into recession. The Chinese economy could also slow on the Zero-Covid policy and the real estate crisis. Given this, it seems the Canadian dollar could swing lower as crude oil markets continue to move unstably and concerns about a global recession grow. However, if Iran begins exporting crude oil again, OPEC has hinted it might cut back on production, with prices also likely to rise again toward winter as demand outstrips supply. The markets will continue to monitor the Ukraine situation and US/China tensions on September, with the USD/CAD pair likely to move between C\$1.27–1.33 with an eye also on economic indicators and highly-volatile crude oil markets.

Korean Won – September 2022

Expected Ranges

Against the US\$: KRW 1,320–1,380

Against the yen: JPY 10.101–10.526 (KRW100)

1. Review of the Previous Month

The USD/KRW pair rose in August.

The pair opened the month trading at KRW1304.0 on August 1. Real-demand transactions were thin on the ground at the start of the month. US long-term interest rates rose by over 15bp as several FRB governors dropped comments about ongoing rate hikes. As a result, the currency pair rose to KRW1315.0 during the morning of August 3. However, overseas investors continued to buy South Korean stocks on healthy business results, so the pair's topside gradually grew heavier, with the pair dropping to a monthly low of KRW1296.1 on August 5. The US released some robust employment data during overseas trading time on August 5. As investors priced in a 0.75% rate hike at the September FOMC meeting, the currency pair rose again on August 8.

With South Korea on holiday on August 15, the August NY FRB Manufacturing Index was released during overseas trading time and it fell sharply below expectations, with recessionary concerns flaring up again. The minutes to the FOMC meeting were then released during overseas trading time on August 17. They revealed that the FOMC was prioritizing the fight against inflation and did not regard the recent fall in commodity prices as sufficient recent to assume that inflation was trending lower. With US companies releasing generally healthy settlement results and expectations waning for falling inflation, US interest rates rose and the USD/KRW pair followed suit. Dollar short positions against major currencies were subject to some loss cutting during overseas trading time on August 18 after the St. Louis FRB president voiced support for a 75bp rate hike in September. The USD/KRW pair also renewed recent highs to climb to KRW1228.8. The RMB weakened at the start of the next week when The People's Bank of China (PBC) cut its loan prime rate, so the USD/KRW pair moved firmly. Russia then announced during overseas trading time that it was shutting down a natural gas pipeline. The benchmark yield on 10-year treasuries also recovered to the key 3% mark on concerns that FRB chair Jerome Powell would intervene verbally to constrain inflation. All this saw the currency pair rising to KRW1346.6.

As expected, the BOK hiked rates by 25bp when it met on August 25, though the BOK governor also talked about stubbornly high inflation. As South Korean interest rates soared by close to 20bp, the currency pair dropped back. However, speculation then grew that FRB chair Jerome Powell would mention prolonged interest-rate tightening at his speech at the weekend's Jackson Hole symposium, so although BOK officials verbally intervened to curb won bearishness, the currency pair still climbed to KRW1350.8. There was some real-demand won buying toward the month's end. With concerns about an intervention by the authorities also waning, the pair eventually closed the month trading at KRW1337.6, down 38.5 won on the end of July.

2. Outlook for This Month

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

The pair will be swayed by three main factors this month:

(1) Inflationary changes and FRB monetary policy, (2) BOK monetary policy, and (3) the impact of monetary easing and an economic slowdown in China.

As for (1), in his speech at the Jackson Hole symposium on August 26, FRB chair Jerome Powell hinted that the FRB would continue tightening for a prolonged period to tackle inflation. This poured cold water on market expectations that the FRB would cut rates from 2023 on recessionary concerns. From here on, the markets will focus on the pace of rate hikes and the final landing point for the policy rate. FOMC participants will be announcing their projections for the federal funds rate when the FOMC meets on September 22, with the dollar set to face buying pressure until the meeting.

With regards to (2), the BOK decided to lift its policy rate from 2.25% to 2.50% when it met on August 25. In his press conference, the BOK governor said inflation would probably peak out earlier than predicted at the previous meeting, with inflation set to remain high thereafter. He also hinted that the South Korea would not wind down tightening faster than the US in order to rein in won bullishness. This probably served to relieve won downside pressure to a certain extent.

As for (3), the PBC's rate cut suggests the Chinese economy might be slowing on the Zero-Covid policy, with the RMB also moving bearishly as a result. The situation is unlikely to improve from next month onward, with the won likely to remain particularly susceptible to speculative selling during overseas trading time.

New Taiwan Dollar – September 2022

Expected Ranges

Against the US\$: NT\$30.10–30.80

Against the yen: JPY4.40–4.66

1. Review of the Previous Month

The USD/TWD pair rose in August to hit its highest level in around 29 months.

The pair opened the month trading at TWD29.970 on August 1. Geopolitical risk increased on news that House of Representatives speaker Nancy Pelosi would visit Taiwan during a tour of Asia. With overseas investors sending their funds overseas on risk aversion, the currency pair hit TWD30 for the first time in around 26 months. However, the pair's topside was weighed down as exporters sold the greenback above TWD30. Nancy Pelosi landed in Taiwan on August 3, but the markets remained subdued. Nonetheless, the pair continued moving firmly around TWD30 as overseas investors sent dividends back home. The Chinese People's Liberation Army (PLA) began a series of military maneuvers close to Taiwan on August 4, so Taiwanese stocks fell sharply on August 5. Stocks then bounced back, though, so the Taiwan dollar was bought and the currency pair dropped to around TWD29.95. However, the pair moved back to around TWD30 on August 8 on the strong results of the US employment data.

The US July CPI data was released mid-August and it was down on expectations. This led to rising expectations for a slower pace of rate hikes, so US stocks and bonds rose. Taiwanese stocks and the Taiwan dollar also rose in Taiwanese markets on August 11, with the currency pair temporarily dipping to TWD29.928. Taiwan-dollar buying was short-lived, though. On August 15, the Chinese authorities cut medium- to long-term lending facility rates for urban banks. With the Chinese July industrial production data and retail sales data also falling below market expectations, Asian currencies were sold and the USD/TWD pair continued moving around TWD30. Taiwanese stocks moved firmly thereafter, but overseas investors then sold Taiwanese stocks, so the Taiwan dollar faced more selling pressure. On August 19, the pair closed at TWD30 for the first time in around 27 months.

The Taiwan dollar fell at a faster pace late August. US long-term interest rates rose on concerns about monetary tightening. The USD/TWD pair also edged up to hit TWD30.3 for a time on August 24. US interest rates then rose after a hawkish speech by FRB chair Jerome Powell at the Jackson Hole symposium. As concerns about a US recession grew, Taiwanese stocks weakened and the Taiwan dollar was sold, with the currency pair climbing temporarily to TWD30.482 on August 30 for the first time in around 29 months.

2. Outlook for This Month

The USD/TWD pair is expected to move with a firm downside in September.

Geopolitical risk rose at the start of August after House of Representatives speaker Nancy Pelosi visited Taiwan. The pair moved in the TWD30 range during trading for the first time in over two years, though it dipped below TWD30 at the close of trading. However, on August 19 it closed above TWD30 and then edged higher. China has conducted military maneuvers close to Taiwan and it has made several excursions into Taiwan's side of the Taiwan Strait, though life in Taiwan is going on as normal. One concern is the impact of these military maneuvers on air

travel and shipping.

A further concern is the fact that Taiwan's July export orders figure fell on the previous years for the first time since April. The contraction in April was the first one in around two years and it was due in large part to a lockdown in Shanghai, though the figure returned to positive territories from May. Inventory adjustment moves are underway in all sectors apart from high-end semiconductors, so there are growing concerns about an economic slowdown. Though the export amount is not obviously slowing, investors should continue to monitor this leading indicator.

The USD/TSD pair will move with a firm downside in September on US monetary tightening. FRB chair Jerome Powell struck a hawkish tone about inflation during his speech at the Jackson Hole symposium. If the FOMC also implements a 0.75% rate hike and strikes a hawkish tone when it meets in September, the Taiwan dollar will remain a hard currency to buy.

The Central Bank of the Republic of China (Taiwan) (CBC) will also hold its Monetary Policy Meeting the day after the September FOMC meeting. The CBC implemented a 0.125% hike when it last met in June. After considering the negative impact of rate hikes, the CBC adopted a cautious stance and decided only to lift rates by the usual 0.125%. While the US is implementing large-scale rate hikes, most observers think the CBC will only lift rates by 0.125% in September too. Concerns about an economic slowdown are growing, though, while CPI growth remains within the 3% range, so the CBC might prioritize the economy by shelving rate hikes and going instead for quantitative tightening by lifting deposit reserve requirement ratios, for example. Investors should also be on guard against this scenario.

Hong Kong Dollar – September 2022

Expected Ranges **Against the US\$: HK\$ 7.8300–7.8500**
Against the yen: JPY 16.60–17.80

1. Review of the Previous Month

Hong Kong dollar spot exchange market in August

USD/HKD pared back its loss towards 7.85 level after hitting its 4-month fresh low of 7.8278. Following the release of US peaking inflation, market participants pushed back expectation for Fed's aggressive rate hike somewhat and falling UST yield drove the USD lower. Meanwhile, HKD interest rates played a catch-up rapidly with the USD rates, and the narrowing HKD-USD interest rate spread prompted market participants to unwind the long USD/HKD carry trade position temporarily. The IPO listing of China Tourism Group Duty Free (amounting HKD 16.2bn or USD 2.1bn), which was the largest IPO listing in HK so far this year, also lifted demand for HKD. However, the HKD rebound was proved to be short-lived as the Fed's aggressive rate hike cycle is still underway. On the macro front, domestic recovery remained on track, with the jobless rate for July falling sharply to 4.3%. The HK government also shortened the quarantine period for inbound visitors to 3+4 days, i.e. 3 days of compulsory quarantine in designated hotel and 4 days of medical surveillance at home. Retail sales figure was disappointing, as the impact of consumption voucher was weaker than expected. The global recession risk and the bleak China growth outlook weighed on HK exports outlook and the government revised its annual growth projection to -0.5% to +0.5% from +1 to +2%.

Hong Kong dollar interest rate market in August

HKD HIBOR curve climbed across the tenor as HKD liquidity condition continued to tighten. 1-month HKD HIBOR jumped sharply from 1.33% at July-end to 1.8%. 3-month tenor shot up to 2.5% from 2.2% at July-end. The HKD HIBOR – USD LIBOR spread rose, with 1-month and 3-month tenor narrowing to -70bps and -40bps from -100bps and -60bps, respectively. With frequent FX intervention to defend the USD-HKD peg in early August, the aggregate balance slid to around HKD 125bn from HKD 165bn at July-end. The rising 3-month HKD HIBOR lifted the HKD IRS curve as well, with 3Y and 5Y tenor up to 3.4% and 3.3% from 2.9% and 2.8% at July-end, respectively. The jump in HKD short-term funding rate amid the IPO subscription period was proved to be short-lived.

2. Outlook for This Month

Hong Kong dollar spot exchange market in September

HKD spot is set to return to its weak-side convertibility undertaking of 7.85 level, as the carry trade flow of long USD/HKD amid the Fed's rate hike cycle will keep the HKD spot under pressure. In September, the Fed is set to deliver a large rate hike and the HKD-USD interest rate gap widening will push the USD/HKD spot back to 7.85 level. Looking back into the previous Fed's rate hike cycle, the aggregate balance fell as much

as to HKD 54bn, pointing to more downside for the current level of HKD 125bn and persisting HKD weakness amid Fed's aggressive rate hike cycle. The IPO flow should prove to be limited. In light of weak HK equities performance this year (Hang Seng Index -18% year-to-date), IPO activities should remain subdued in the rest of this year. The delisting of some Chinese firms from US exchanges is expected to divert capital to HK equities market but the actual size of flow will likely shrink. Some investors may simply cut the exposure on Chinese stock on escalating China-US tensions and the increasing financial sanction risk. The market depth of HK stock market may fuel concern for some investors as well.

Hong Kong dollar interest rate market in September

The decline in the aggregate balance to HKD 125bn and tighter HKD liquidity condition had sent HKD rates higher across tenor. We reckon that the HKD rates will be settling at current level before the FOMC meeting in September. Under the USD-HKD peg, HKD rates will track on USD rates (historically 3-month HIBOR tracked on Fed fund target rate) and we look for more upside for HKD HIBOR curve. We also maintain our call for a HKD prime rate hike after the FOMC meeting in September. The upcoming US jobs report and CPI inflation data will also cause volatility of HKD interest rates.

Chinese Yuan – September 2022

Expected Ranges **Against the US\$: CNY 6.8500–7.1500**
Against the yen: JPY 18.75–20.75

1. Review of the Previous Month

The U.S. dollar/Chinese yuan exchange rate rose in August.

On August 1, the U.S. dollar/Chinese yuan exchange market opened trading at around the CNY 6.75 level. Thereafter, market transactions led the U.S. dollar/Chinese yuan exchange rate to rise to temporarily approach the lower-CNY 6.78 level. Subsequently, the U.S. dollar/Chinese yuan exchange rate continued fluctuating mainly at around the CNY 6.75 level without any factor to lead the market. On August 10, the July Consumer Price Index of the U.S. was announced, attracting substantial attention in the market, and the outcome was lower than the estimated level, which led the U.S. dollar to depreciate. The U.S. dollar/Chinese yuan exchange rate fell once to the CNY 6.72 level.

On August 15, the medium-term lending facility rate was cut after its maturity, while major economic indices for July, such as industrial production, retail sales, and fixed-asset investment in urban areas, turned out to be lower than the estimated figures, which led the Chinese yuan to depreciate. As a result, the U.S. dollar/Chinese yuan exchange rate rose to the CNY 6.79 level on August 16. Subsequently, on August 19, the depreciation of the euro led to the appreciation of the U.S. dollar, which also supported the U.S. dollar/Chinese yuan. Thus, the U.S. dollar/Chinese yuan exchange rate continued rising and reached the CNY 6.81 level.

On August 22, the loan prime rates were cut, and the one-year rate was set at 3.65% (whereas the market estimate was 3.60%), while the five-year rate was set at 4.30% (while the market estimate was 4.35%). In the foreign exchange market, the Chinese yuan remained weak, and on August 24, the U.S. dollar/Chinese yuan exchange rate rose to the CNY 6.87 level for the first time since August 2020. Thereafter, the exchange rate was pulled back slightly by the People's Bank of China (PBOC) central parity rate, which was set toward a stronger Chinese yuan than the market estimate. However, on August 26 during Jackson Hole Economic Symposium, Federal Reserve Board (FRB) Chair Jerome Powell maintained a hawkish attitude, which led the U.S. dollar/Chinese yuan exchange rate to reach the CNY 6.92 level—after the onshore market opening on August 29—for the first time in approximately two years.

2. Outlook for This Month

The U.S. dollar/Chinese yuan exchange rate is forecast to remain stable in September.

In August, the U.S. dollar/Chinese yuan exchange rate remained high, and as of August 29, when this article is being written, the monthly candlestick chart shows a significant rise. The trend in the U.S. dollar/Chinese yuan exchange market changed, and the U.S. dollar started to appreciate after the lockdown in Shanghai in April and continued marking a significant monthly rise, which accelerated further in August.

Apart from the shock sell of the Chinese yuan after the introduction of the lockdown measures in Shanghai, the appreciation of the U.S. dollar/Chinese yuan exchange rate was led since April by the rapid rise of the U.S. policy

interest rate by the Federal Reserve Board (FRB) as well as by the appreciation of the U.S. dollar, based on the hawkish attitude of the FRB concerning the inflation rate in the U.S., which remains high. On the other hand, the U.S. dollar/Chinese yuan exchange rate continued rising since the middle of August mainly based on the depreciation of the Chinese yuan. The overall growth of the financial markets in China has been low with weak demand for funds. Under such a circumstance, the M2 money supply shows a large volume of cash stagnating in the market. Even though it is possible for an interest rate cut to lead to a “liquidity trap,” the PBOC has started to take measures of monetary easing, mainly in the real estate sector. Furthermore, the PBOC released a statement on August 22, the same day on which it announced the LPR, calling for responses to capital demand in the real estate sector as well as a credit expansion in the real economy. Market participants should thus continue observing whether the series of interest rate cuts would lead to the credit expansion to be reflected in economic figures in the times ahead.

China maintains strict measures to achieve its zero-Covid policy, and this has been keeping the Chinese economy weak, as can be seen in the Chinese economic indices. There is always some pressure to buy the Chinese yuan in terms of the basic balance of payments, and this is confirmed in the enormous trade surplus. However, from the point of view of the fundamentals based on monetary policy and economic outlook, there is no factor to encourage market participants to actively buy the Chinese yuan. Also, on August 26, FRB Chair Jerome Powell maintained his hawkish attitude at Jackson Hole Economic Symposium, and the difference in monetary policy between the U.S. and China is expected to keep the U.S. dollar/Chinese yuan exchange rate high. Therefore, the U.S. dollar/Chinese yuan exchange rate is most likely to remain robust in September.

Singapore Dollar – September 2022

Expected Ranges **Against the US\$: SG\$ 1.3620–1.4438**
Against the yen: JPY 93.20–104.20

1. Review of the Previous Month

The Singapore dollar depreciated against the U.S. dollar in August 2022.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange rate was at the lower-SGD 1.38 level. Waiting for the release of the U.S. employment statistics, the Singapore dollar appreciated gradually, and the U.S. dollar/Singapore dollar exchange rate once reached the upper-SGD 1.37 level. However, the U.S. employment statistics were released thereafter with figures stronger than the previous month, and this led interest rates in the U.S. to rise sharply. As a result, the U.S. dollar appreciated, and the U.S. dollar/Singapore dollar exchange rate reached the SGD 1.38 level again. Subsequently, the July CPI of the U.S. attracted attention in the market. The July CPI of the U.S. was then announced, which turned out to be lower than the market estimate. In reaction, interest rates in the U.S. fell and the U.S. dollar depreciated. As a consequence, the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.36 level.

Thereafter, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range at around the SGD 1.37 level. On August 15, the People's Bank of China (PBOC) made an unexpected decision to cut its policy interest rate, while the GDP of Thailand recorded negative growth. As a result, concerns over an economic downturn grew in the market. The Singapore dollar weakened, and the U.S. dollar/Singapore dollar exchange rate reached the SGD 1.38 level again. Thereafter, the overall Asian currencies remained weak. Then, on August 17, the minutes of the Federal Open Market Committee (FOMC) meeting were released in the U.S., revealing slightly dovish content, which weakened the U.S. dollar to some extent. However, Federal Reserve Board (FRB) officials made a series of hawkish remarks thereafter, which led interest rates in the U.S. to continue rising. With the weakness of the Asian stock market as well, the U.S. dollar/Singapore dollar exchange rate, which once fell to the upper-SGD 1.36 level, rose to the SGD 1.40 level toward August 24.

Thereafter, market participants kept a wait-and-see attitude until Jackson Hole Economic Symposium, scheduled to start on August 25. Before this event, China introduced additional economic measures, positively reacting to which overall Asian currencies strengthened. Following this trend, the depreciation of the Singapore dollar stopped temporarily. As a result, the U.S. dollar/Singapore dollar exchange rate fell slightly and fluctuated at the SGD 1.39 level.

Jackson Hole Economic Symposium opened thereafter, attracting substantial attention in the market. FRB Chair Jerome Powell made a speech to confirm the plan of monetary tightening for the purpose of controlling inflation. In reaction, market participants actively bought the U.S. dollar, weakening the overall Asian currencies. As a consequence, the U.S. dollar/Singapore dollar exchange rate reached the SGD 1.40 level again. After the symposium, there was no new factor to impact the market, and the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a small range. The U.S. dollar/Singapore dollar exchange rate is currently fluctuating at the upper-SGD 1.39 level (as of August 30).

2. Outlook for This Month

The Singapore dollar is forecast to continue depreciating against the U.S. dollar in September 2022.

The Monetary Authority of Singapore (MAS) held an emergency meeting in July to change its monetary policy. The monetary policy was thus revised for monetary tightening by leading the Singapore dollar foreign exchange rates to rise against the currencies in the NEER basket. However, the Singapore dollar remains weak against the U.S. dollar. Furthermore, at Jackson Hole Economic Symposium held in August, the U.S. confirmed a steady hawkish attitude, leading interest rates in the U.S. to rise. Thus, the Singapore dollar remains weak against the U.S. dollar. In September as well, the Singapore dollar is expected to continue weakening against the U.S. dollar, given that demand for the U.S. dollar is likely to remain strong.

In Singapore as well, there are signs of inflation, as is the case in the U.S. and Europe. The July headline inflation rate turned out to be +7% year-on-year, while the core inflation rate turned out to be +4.8% year-on-year. Inflation is clearly accelerating in Singapore. Under such a circumstance, the MAS held an emergency meeting in July and decided to lead the Singapore dollar to strengthen further. Despite such measures of monetary tightening, it is difficult to say that the Singapore dollar exchange market has been controlled as is planned by the MAS. On the contrary, there are various risks in the Singapore dollar exchange market. At the next regular meeting of the MAS scheduled for October, the MAS is likely to maintain measures of monetary tightening. However, it could turn out to be difficult for the MAS to make decisions on the details of its measures.

Major risks include the accelerating inflation discussed above as well as actions taken by China and Europe. Under the current condition, the Singapore dollar remains relatively stable against the Chinese yuan and the euro. However, China has been announcing a number of interest rate cuts, and falling interest rates have resulted in the depreciation of the Chinese yuan. If such monetary and fiscal actions of China are not sufficient enough to control the situation and if the Chinese economy weakens significantly, the Singapore dollar could follow the Chinese yuan to depreciate, unlike the principle of the MAS. Furthermore, inflation has been accelerating even faster in Europe than in the U.S. and Singapore. Europe might thus see a full-fledged economic recession if they fail to appropriately deal with the appreciation of energy prices. Because the euro is one of the most-important currencies in the NEER basket, such a situation could lead the Singapore dollar to weaken, as might also be resulting from the depreciation of the Chinese yuan discussed above.

For these reasons, the Singapore dollar is forecast to remain weak against the U.S. dollar in September. The Singapore dollar is likely to rally after the appreciation of the U.S. dollar peaks out, probably after the beginning of 2023.

Thai Baht – September 2022

Expected Ranges

Against the US\$: THB 35.70–36.80

Against the yen: JPY 3.68–3.80

1. Review of the Previous Month

In August, the U.S. dollar/Thai baht exchange rate fell once and returned to the level of the market opening at the end of the month.

In August, the U.S. dollar/Thai baht exchange rate fluctuated at around the THB 36 level, following the growing geopolitical risks surrounding the visit to Taiwan by U.S. House of Representatives Speaker Nancy Pelosi, as well as speculations around the future outlook of U.S. monetary policy. However, the market thereafter started to reflect expectation for an interest rate hike at the Monetary Policy Committee (MPC) meeting scheduled for August 10 at the central bank of Thailand. As a result, the Thai baht continued strengthening, and the U.S. dollar/Thai baht exchange rate started to fall gradually. However, on August 10, the MPC announced its decision to raise its policy interest rate by 0.25% to 0.75% but emphasizing in the statement that future interest rate hikes would be carried out cautiously. As a result, the Thai baht started to weaken gradually. On August 11, the Thai baht depreciated to a level near THB 35 against the U.S. dollar, after which the exchange rate remained stable. It is also noteworthy that the GDP of Thailand for the second quarter of 2022 (preliminary figure) turned out to be +2.5% year-on-year, below the market estimate (+3.1% year-on-year). Furthermore, Federal Reserve Board (FRB) officials made a series of hawkish remarks regarding the future monetary policy of the U.S., before the speech by FRB Chair Jerome Powell scheduled for August 26. These factors also led the U.S. dollar to appreciate while leading the Thai baht to depreciate. As a result, the Thai baht weakened further against the U.S. dollar. On August 22, the U.S. dollar/Thai baht exchange rate exceeded the THB 36 level again. Then, on August 24, the Constitutional Court of Thailand suspended Prime Minister Prayut Chan-o-cha from office. However, this did not significantly impact the U.S. dollar/Thai baht exchange market. Thereafter, FRB Chair Jerome Powell gave a speech on August 26, the contents of which were seen as hawkish in the market. Consequently, the U.S. dollar strengthened against a wide range of currencies. Following this trend, the U.S. dollar/Thai baht exchange rate rose as well. At the beginning of the week following Powell's speech, the U.S. dollar/Thai baht exchange rate fluctuated at the mid-THB 36 level.

2. Outlook for This Month

The U.S. dollar/Thai baht exchange rate is forecast to remain high in September.

The policy interest rate of Thailand was raised to 1.75% in December 2018. Thereafter, the policy interest rate was cut by 0.25% in August 2019, after which there were gradual interest rate cuts. In May 2020, the policy interest rate reached 0.50%. Since then, the policy interest rate remained at the same level. Recently, many countries have raised their policy interest rates in response to inflation. However, Thailand maintained the policy

interest rate at the all-time low at 0.50%. However, on August 10, the MPC held a meeting, and the central bank decided to raise the interest rate. This interest rate hike had been anticipated in the market, as the governor of the central bank of Thailand, Sethaput Suthiwartnarueput, had previously implied the possibility of an interest rate hike. However, the statement was released after the MPC, indicating that the normalization of monetary policy would be carried out in a gradual manner, showing a cautious attitude regarding future interest rate hikes in September and beyond. Furthermore, at a business forum held thereafter, Suthiwartnarueput made a remark that there would not be active interest rate hikes, once again confirming that the central bank of Thailand plans to raise interest rates gradually and cautiously. Therefore, it is unlikely for the central bank of Thailand to change its cautious attitude in the immediate future.

On the other hand, in the U.S., FRB Chair Jerome Powell made a speech at Jackson Hole Economic Symposium, implying the possibility to continue the current monetary policy to control the economy for a certain period, while stating that history warns against prematurely loosening policy. This speech was seen unexpectedly hawkish in the market. Before this speech, multiple FRB officials made hawkish speeches. However, it is certain that the contents of Powell's speech had been unexpected, as U.S. stock prices fell sharply after this speech. He also stated that whether the policy interest rate would be raised or not in September would depend on economic indices. However, unless the economic indices turn out to be significantly worse than market estimates, the hawkish attitude of the FRB is not likely to change.

For the above reasons, the U.S. dollar is likely to continue strengthening, and the Thai baht is likely to continue weakening in September. Even though the exchange rate might be temporarily corrected, the U.S. dollar/Thai baht exchange rate is forecast to remain high.

Malaysian Ringgit – September 2022

Expected Ranges

Against the US\$: MYR 4.42–4.52

Against the yen: JPY 30.12–31.05

1. Review of the Previous Month

In August, the Malaysian ringgit remained weak, as a result of the appreciation of the U.S. dollar observed in the middle of the month. The U.S. dollar/Malaysian ringgit exchange rate once reached MYR 4.49, for the first time since the so-called “Trump rally” seen at the end of 2016.

At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range between MYR 4.45 and MYR 4.46. There were various factors in the market, both positive and negative, such as the tensions between the U.S. and China surrounding the visit to Taiwan by U.S. House of Representatives Speaker Nancy Pelosi as well as concerns over global inflation growing after the policy interest rate hike by 50 basis points by the Bank of England. Under such circumstances, the U.S. dollar/Malaysian ringgit exchange rate did not move substantially.

In the middle of the month, the July Consumer Price Index (CPI) of the U.S. was announced on August 10, revealing a result below the market estimate. In reaction, some market participants started to expect a policy interest rate hike of 50 basis points at the next Federal Open Market Committee (FOMC) meeting scheduled for September, whereas previously the majority of market participants expected an interest rate hike of 75 basis points. As a result, on August 11, the following day, market participants started selling the U.S. dollar from the early morning, as a result of which the U.S. dollar/Malaysian ringgit exchange rate fell below the MYR 4.44 level. After the U.S. dollar-selling slowed down, the U.S. dollar/Malaysian ringgit exchange rate was approaching its low. Under such circumstances, on August 15, the July retail sales and industrial production were both announced in China, and the figures were below the market estimates. In reaction, the People's Bank of China made an emergency decision to cut the seven-day and one-year interest rate by 10 basis points. Consequently, the Chinese yuan depreciated sharply, and market participants quickly bought back the U.S. dollar. As a result, the U.S. dollar/Malaysian ringgit exchange rate rallied. Furthermore, on August 19, the July trade statistics of Malaysia were released. Both imports and exports recorded significant positive year-on-year growth. On the other hand, these figures were slightly below market estimates, somewhat fueling concerns over a slowdown of the Chinese economy.

Toward the end of the month, attention in the market shifted to Jackson Hole Economic Symposium, which is annually held in Wyoming, U.S., starting on August 25. Market participants confirmed steady employment statistics. On the other hand, there were divided opinions about how much the U.S. policy interest rate would be raised at the FOMC meeting scheduled for September after the announcement of the July CPI of the U.S. On August 26, local time, in New York, Federal Reserve Board (FRB) Chair Jerome Powell gave a speech, emphasizing the importance of price stability. In reaction, stock prices fell sharply, and the U.S. dollar appreciated. On August 29, the following day, the U.S. dollar/Malaysian ringgit exchange rate returned to the MYR 4.49 level again. While the announcement of the July CPI of Malaysia that was originally scheduled for

August 26 was postponed until August 29, the outcome revealed a significant rise of +4.4% year-on-year, although this had been estimated in the market.

2. Outlook for This Month

In September, the U.S. dollar/Malaysian ringgit exchange market is forecast to follow inflation indices in other major countries in Europe and the U.S. as well as decisions on the policy interest rate in various other countries.

In terms of domestic factors, the central bank of Malaysia is scheduled to announce its policy interest rate on September 8. There are two monetary policy meetings scheduled, including that of September, before the end of the year. The majority of market participants expect an interest rate raise of 50 basis points. On the other hand, on August 26 during Jackson Hole Economic Symposium, both FRB Chair Jerome Powell and Member of the Executive Board of the European Central Bank (ECB) Isabel Schnabel announced their attitude to continue raising policy interest rates even taking the risk of an economic recession, and this impacted the market significantly. However, market participants remain concerned about the possibility that difference in the monetary policy among various countries would create a wider gap between strengthening currencies and weakening currencies. As the central banks of ASEAN countries are more interested in prioritizing economic recovery by limiting policy interest rate hikes to the minimum, it is difficult for them to make decisions. Thus, market participants remain attentive, waiting for the monetary policy meeting to be held in Malaysia on September 8. On August 29, after Jackson Hole Economic Symposium, the U.S. dollar/Malaysian ringgit exchange rate reached the MYR 4.49 level, which is a historically low rate for the Malaysian ringgit. Given such a circumstance, it is possible for the Malaysian ringgit to continue depreciating to reach the lowest rate since the Asian financial crisis in 1998, if the U.S. dollar continues appreciating further toward the next FOMC meeting, scheduled for September 22.

It seems slightly difficult to expect the Malaysian ringgit to start strengthening before the end of the month. However, since FRB Chair Jerome Powell gave a speech during Jackson Hole Economic Symposium on August 26, revealing his attitude to continue tackling inflation, some market participants expect the policy interest rate to be raised by 50 basis points at the monetary policy meeting scheduled for September 8. If more market participants expect more-significant policy interest rate hikes before the end of the year at the remaining two monetary policy meetings and beyond, the Malaysian ringgit could start rallying. It is also possible for market participants to buy back the Malaysian ringgit once negative factors have passed, such as the weakness of the Chinese yuan based on concerns over an economic downturn in China as well as the peak out of crude oil prices, as the trade surplus of Malaysia remains high, thanks to the rise of resource prices and the domestic economy, which is seen as stable based on personal consumption.

Indonesian Rupiah – September 2022

Expected Ranges

Against the US\$: IDR 14,600–15,000

Against the yen: JPY 0.91–0.95 (IDR 100)

1. Review of the Previous Month

In August, the U.S. dollar/Indonesian rupiah exchange rate did not move in any direction.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading on August 1 at the mid-IDR 14,800 level. As long-term interest rates rose as a result of hawkish remarks made by Federal Reserve Board (FRB) officials, the Indonesian rupiah weakened, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 14,900 level. However, on August 5, the level of interest rates in the U.S. fell for adjustment before the announcement of the July employment statistics of the U.S. Following this trend, the U.S. dollar/Indonesian rupiah exchange rate also fell. The Indonesian rupiah recovered to the upper-IDR 14,800 level. On the same day, the April–June (quarter) GDP of Indonesia was announced, revealing a positive increase of 5.44% year-on-year, which was above the market estimate. This also supported the Indonesian rupiah. On August 8, in the following week, the U.S. dollar/Indonesian rupiah exchange market opened trading at the mid-IDR 14,900 level. However, on August 9, the following day, the Indonesian rupiah strengthened, positively reacting to the annual GDP growth outlook of 5–5.2% as set out by the Indonesian government, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 14,800 level. On August 10, the July Consumer Price Index (CPI) fell below the market estimate, as a result of which expectations for interest rate hikes in the U.S. receded. In reaction, the U.S. dollar/Indonesian rupiah exchange rate fell below the IDR 14,800 level and reached the mid-IDR 14,700 level on August 11, the following day. The Indonesian rupiah continued appreciating thereafter, and the U.S. dollar/Indonesian rupiah exchange rate once reached the mid-IDR 14,600 level on August 12. Thus, the Indonesian rupiah recorded its highest rate against the U.S. dollar since the middle of June. In the following week, the U.S. dollar/Indonesian rupiah exchange rate opened trading at the upper-IDR 14,600 level, as the Indonesian rupiah remained strong after the appreciation seen in the previous week. However, on August 16, the following day, concerns over an economic downturn grew globally again, as the economic indices of China and the U.S. released on the previous day turned out to be weak. As a consequence, the Indonesian rupiah depreciated, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 14,700 level. Then, on August 18, after a national holiday in Indonesia, multiple officials from the FRB made remarks to emphasize the need to continue raising the policy interest rate in order to control inflation. As a result, the Indonesian rupiah depreciated against the U.S. dollar to the IDR 14,800 level. On August 19, the overall Asian currencies remained weak, and thus the Indonesian rupiah also continued depreciating. The U.S. dollar/Indonesian rupiah exchange rate once reached the upper-IDR 14,800 level. While concern remained regarding the policy interest rate hikes in the U.S., the Indonesian rupiah continued depreciating. On August 22, the Indonesian rupiah remained weak, and the U.S. dollar/Indonesian rupiah exchange rate fluctuated at around the IDR 14,900 level.

On August 23, the following day, some market participants bought the U.S. dollar and sold the Indonesian rupiah based on actual demand as the end of the month was approaching. As a result, the Indonesian rupiah

weakened, and the U.S. dollar/Indonesian rupiah exchange rate once reached the lower-IDR 14,900 level. However, on the same day, the central bank of Indonesia held its regular meeting, attracting substantial attention in the market, and announced a decision to raise the policy interest rate by 25 basis points, which turned out to be a surprise in the market. Therefore, the Indonesian rupiah sharply appreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate once reached the lower-IDR 14800 level. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate fluctuated with a strong Indonesian rupiah between the mid-IDR 14,800 level and the lower-IDR 14,800 level, still reacting to the surprise policy interest rate hike made by the central bank of Indonesia. However, after a speech by FRB Chair Jerome Powell given at Jackson Hole Economic Symposium in the U.S., interest rates in the U.S. rose, and on August 29, after the weekend, the Indonesian rupiah weakened again and the U.S. dollar/Indonesian rupiah exchange rate returned to a level around the IDR 14,900 level (as of August 30).

2. Outlook for This Month

The U.S. dollar/Indonesian rupiah exchange rate is forecast to remain flat in September.

In August, FRB officials and FRB Chair Jerome Powell made hawkish remarks in order to correct expectations that had been observed in the market since the previous Federal Open Market Committee (FOMC) meeting in July such that the FRB would become more dovish in the times ahead, as the July CPI of the U.S. turned out to be lower than the market estimate. Thus, expectations for interest rate cuts next year and beyond receded, leading interest rates in the U.S. to rise. As a result, the Indonesian rupiah was kept from appreciating further against the U.S. dollar. In September, market participants are likely to continue carefully observing economic indices related to the labor market and price levels in the U.S. Yet, unless it becomes certain that the current inflation has been well contained, it is difficult to expect the U.S. dollar to depreciate. Thus, the U.S. dollar/Indonesian rupiah exchange rate is not likely to fall significantly.

On the other hand, the central bank of Indonesia decided to raise its policy interest rate, and this turned out to be a surprise in the market, as it had maintained a dovish attitude, unlike other central banks of Asia. One of the reasons is that the Indonesian monetary authorities need to control inflation in a preemptive manner, as it is likely for fuel prices to be raised by the Indonesian government. The policy interest rate was raised only by 25 basis points this time, and it was not an emergency decision. Thus, for now, it is likely that policy interest rate hikes in the times ahead will remain slow and gradual. As the central bank of Indonesia still has greater room for future interest rate hikes compared to other central banks in Asia, the Indonesian rupiah is not likely to depreciate in a one-sided manner.

Furthermore, the July trade balance of Indonesia was announced in August, revealing again a significant trade surplus of over USD 4.2 billion. The April–June quarter current account balance of Indonesia was also announced in August with a surplus of USD 3.9 billion. The price of coal as a fuel has still been fluctuating high. Given such figures, it remains unlikely for the Indonesian rupiah to be sold as actively as other currencies, even with the appreciation of the U.S. dollar.

It is also worth noting that the balance of foreign inventors' holdings of Indonesian government bonds has recorded positive growth from the previous month for the first time since February this year, in terms of the figure as of August 29. Indonesia has been successful in avoiding capital outflow, and this is another positive factor for the Indonesian rupiah.

Thus, there are both positive and negative factors for the Indonesian rupiah. Consequently the U.S.

dollar/Indonesian rupiah exchange rate is forecast to remain flat in September.

Philippine Peso – September 2022

Expected Ranges **Against the US\$: PHP 55.00–57.50**
Against the yen: PHP 0.40–0.43

1. Review of the Previous Month

The July manufacturing PMI of the Philippines turned out to be at its lowest level since January, while the visit to Taiwan by U.S. House of Representatives Speaker Nancy Pelosi fueled geopolitical risks. However, the Philippine peso was supported by improved market sentiment based on the significant fall of future crude oil prices as well as on strong economic indices and corporate results in the U.S. Furthermore, the July Consumer Price Index (CPI) of the Philippines turned out to be +6.4% year-on-year, exceeding the market estimate. However, expectations continued growing for a policy interest rate by 50 basis points at the monetary policy meeting scheduled for August 18, and this supported the Philippine peso. With both positive and negative factors, the U.S. dollar/Philippine peso exchange rate continued fluctuating at around the PHP 55.500 level without moving in any direction for a while in August.

The employment statistics of the U.S. turned out to be extremely strong, which led market participants to expect active policy interest rate hikes in the U.S., while the June trade deficit of the Philippines renewed the all-time high, and the second-quarter GDP of the Philippines turned out to be +7.4% year-on-year—below the market estimate, which was +8.4%. Thus, the Philippine peso weakened against the U.S. dollar with the worsening economic indices of the Philippines. Thereafter, the U.S. dollar depreciated as the inflation indices of the U.S. suggested the weakening of inflation pressure, and, as a result, the Philippine peso temporarily rallied. However, Federal Reserve Board (FRB) officials subsequently made a series of hawkish remarks that led the Philippine peso to gradually depreciate against the U.S. dollar toward the middle of the month. The U.S. dollar/Philippine peso exchange rate thus once reached the PHP 56.000 level, demonstrating relative weakness compared to Asian currencies. On August 18, the central bank of the Philippines decided to raise the policy interest rate by 50 basis points in order to control inflation, which had been anticipated by the majority of market participants. However, the impact of this decision in the market was minimal.

The governor of the central bank of the Philippines, Dr. Felipe Medalla, emphasized that sufficient measures against inflation had already been taken, and thus he said that he would not raise the policy interest rate by a large interval such as 50 basis points or 75 basis points in the times ahead. Thus, the hawkish attitude of the central bank of the Philippines receded, which led the Philippine peso to weaken against the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate exceeded the PHP 56.000 level. Thus, the trend in the market did not change even after the interest rate hike of 50 basis points, and the Philippine peso remained weak in the second half of the month as well. It is also worth mentioning that the U.S. dollar appreciated thereafter, as market participants remained cautious about hawkish remarks made by FRB officials as well as a possible hawkish remark that FRB Chair Jerome Powell might make (as of the time of this writing) at Jackson Hole Economic Symposium on August 26. This weakened the Philippine peso further, and the Philippine peso reached its lowest rate against the U.S. dollar for the first time in approximately one month.

2. Outlook for This Month

The second-quarter GDP of the Philippines turned out to be weaker than the estimated level. However, the governor of the central bank of the Philippines, Dr. Felipe Medalla, decided to raise the policy interest rate by 50 basis points at the monetary policy meeting held in August, while also emphasizing that sufficient measures against inflation had already been taken and denying the possibility of large-scale interest rate hikes in the times ahead. On the other hand, he has also shared his view that the momentum of the economic recovery in the Philippines had been maintained. Thus, even though it would depend on economic figures and the monetary policy of the U.S., the central bank of the Philippines could become hawkish again. It is also possible for the depreciation of the Philippine peso to impact inflation. Under such circumstances, market participants expect market interventions by the Philippine monetary authorities, which are expected to keep the Philippine peso from depreciating further.

On the other hand, there have been global concerns over an economic slowdown given that many major central banks have decided to raise their policy interest rates. In addition, as a result of an increase in imports, the trade deficit of the Philippines renewed its all-time high. Such deterioration of the trade balance and the fiscal balance as a result of the Covid-related restrictions are likely to continue leading the Philippine peso to depreciate. Furthermore, there has been a gap between the plan of the FRB regarding the future path of the policy interest rate of the U.S. and the expectations in the market for interest rate cuts. Thus, in order to correct the expectations for interest rate cuts in 2023, FRB officials have made a series of hawkish remarks. Therefore, based on the strength of the U.S. dollar backed by the hawkish attitude of the FRB, which prioritizes the control of inflation, the U.S. dollar is forecast to appreciate, and the Philippine peso is forecast to depreciate in the times ahead. It is also important to note that some U.S. stock prices are currently falling, and it is possible for U.S. stock prices to fall more significantly in the times ahead, with market expectations for active policy interest rate hikes in the U.S., which could then lead the Philippines peso to depreciate sharply if risk-averse sentiment grew significantly in the market.

Indian Rupee – September 2022

Expected Ranges **Against the US\$: INR 78.00–83.00**
Against the yen: JPY 1.69–1.76

1. Review of the Previous Month

In August, the U.S. dollar/Indian rupee exchange rate renewed the all-time high.

On July 21, the U.S. dollar/Indian rupee exchange rate reached its high at INR 80.07, after which downward pressure on the U.S. dollar strengthened as many market participants expected the Federal Reserve Board (FRB) to slow down the pace of policy interest rate hikes after the Federal Open Market Committee (FOMC) meeting. As a consequence, the U.S. dollar/Indian rupee exchange rate also fell sharply. Under such circumstances, the U.S. dollar/Indian rupee exchange market opened trading in August at INR 79.19. Thereafter, the Indian government bond yield reached its lowest level, at 7.24%, since May 12. In reaction, the U.S. dollar/Indian rupee exchange rate reached a monthly low at INR 78.49. However, after the visit to Taiwan by U.S. House of Representatives Speaker Nancy Pelosi, China announced its decision to test missiles and carry out military exercises near there. As a result, geopolitical risks grew, and the U.S. dollar/Indian rupee exchange rate returned to the INR 79 level immediately. On August 5, the Reserve Bank of India (RBI) (the central bank of India) held a monetary policy meeting and decided to raise its policy interest rate by 50 basis points, while maintaining the CPI outlook and forward guidance. The overall outcome of the meeting was seen as more hawkish than the market estimate, and this supported the Indian rupee.

In the second week of the month, the employment statistics of the U.S. were released in the evening of Friday, local time, in India, revealing figures significantly stronger than the market estimate. As a result, many market participants expected the U.S. policy interest rate to be raised by 75 basis points at the next FOMC meeting and started to buy the U.S. dollar. As a result, the U.S. dollar/Indian rupee exchange market opened trading in the week with a weaker Indian rupee than the closing rate of the previous week. The U.S. dollar/Indian rupee exchange rate then approached the INR 79.60 level. Having seen this rapid movement of the U.S. dollar/Indian rupee exchange rate, local resources-importing companies bought the U.S. dollar in large volume at the INR 79.50 level, keeping the U.S. dollar/Indian rupee exchange rate from falling.

In the third week after consecutive holidays in Mumbai, the U.S. dollar/Indian rupee exchange rate temporarily fell rapidly to the INR 79.30 level. However, the media reported thereafter that a U.S.-based fund had sold stocks of a major Indian medical institution for INR 94 billion, and this attracted substantial attention in the market. As a result, market participants expected Indian rupee-selling and U.S. dollar-buying. Furthermore, market participants saw the minutes of the previous FOMC meeting as an indication of the possibility for interest rate hikes in the U.S. to last for a long period, leading the U.S. dollar to appreciate. Following this trend, the U.S. dollar/Indian rupee exchange rate returned to the INR 79.80 level.

In the fourth week of the month, the Chinese yuan fell to its lowest rate against the U.S. dollar in two years, placing weight on the overall Asian currencies. Following this trend, the Indian rupee depreciated as well. The U.S. dollar/Indian rupee exchange rate thus rose further to INR 79.90. However, market participants had

persistent concerns over U.S. dollar-selling market interventions by the Indian monetary authorities before the U.S. dollar/Indian rupee exchange renews the all-time high that was previously recorded in July. As a result, the U.S. dollar/Indian rupee exchange rate continued fluctuating for five business days without reaching the INR 80 level.

On Friday, August 26, FRB Chair Jerome Powell gave a speech at Jackson Hole Economic Symposium after the closing of the Indian market. In his speech, Powell indicated that "another unusually large increase" might be appropriate at the next FOMC meeting in September. In response to this, the U.S. dollar/Indian rupee exchange market opened trading on Monday of the last week of the month, renewing the all-time high. The U.S. dollar/Indian rupee exchange rate continued rising to reach INR 79.13. However, the RBI vigorously intervened in the foreign exchange market thereafter, which inversed the trend, and the U.S. dollar/Indian rupee exchange rate started to fall. Toward the end of the month, the U.S. dollar/Indian rupee exchange rate fell sharply, as the media reported on possible capital inflow related to the semi-annual rebalancing of the MSCI Index, while a foreign pension fund was buying Indian government bonds. On August 30, the U.S. dollar/Indian rupee exchange market closed trading at INR 79.46.

2. Outlook for This Month

The U.S. dollar/Indian rupee exchange rate is forecast to renew the high in September.

In August, the U.S. dollar/Indian rupee pair traded as was forecast in the previous month's article. Under the current conditions, the trends in the U.S. dollar/Indian rupee exchange market are likely to remain unchanged in September as well.

The most-important event in September is the U.S. FOMC meeting scheduled for September 21, as it could give us some hints about the future of interest rate hikes in the U.S., depending on whether the policy interest rate is raised by 50 basis points or 75 basis points.

In terms of domestic factors in India, the inflation rate has been above the upper end of the target range, and there is still no sign for the inflation outlook to fall even after three interest rate hikes carried out since May this year, even though some market participants expected the outcome of the August monetary policy meeting of India to be more dovish. Furthermore, the monetary policy stance was also maintained unchanged, with the phrase "engaging in the abolition of monetary easing." For these reasons, the RBI is expected to raise its policy interest rate further in the times ahead. It is also noteworthy that the rise of the U.S. dollar/Indian rupee exchange rate observed toward the end of August was based on index rebalancing as well as custodians' purchases. Because those are special cases, the trend is not expected to continue in the coming month.

Other factors remain the same as last month. In August, crude oil prices were somewhat adjusted toward the middle of August. However, the change in prices was minimal, inevitably leading to a trade- and current-balance deficit. As a result, market participants continue selling the Indian rupee. It seems that the Indian monetary authorities vigorously intervened in the foreign exchange market by selling the U.S. dollar in August, as was also the case in July, as can be seen in the fact that the foreign currency reserves of India decreased by USD 9.8 billion by August 19. Yet, this was not sufficient enough to change the trends in the market.

In September, market participants should carefully observe the outlook for policy interest rate hikes in the U.S. The U.S. dollar/Indian rupee exchange rate is forecast to remain high or rise further depending on interest rates in the U.S.

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

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