

Mizuho Dealer's Eye

November 2022

MIZUHO

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Mizuho Bank, Ltd.

Global Markets Sales Department

U.S. Dollar – November 2022

Expected Ranges

Against the yen: JPY143.00–153.00

1. Review of the Previous Month

The dollar/yen pair opened October trading just below 145 yen. Though it hit the 145 yen range for a time on October 3, it generally moved with a lack of incentives. US interest rates fell sharply during US trading time as US stocks began rallying. The currency pair edged down to the lower-144 yen level. The pair temporarily dipped to 143 yen on October 5. The US September employment data was released on October 7. The data was strong, with the nonfarm payrolls figure and the unemployment rate both up on forecasts. With speculation bubbling that the FRB would remain in hawkish mode, US interest rates rose and US stocks fell, with the greenback also strengthening and the dollar/yen pair hitting the mid-145 yen mark.

In the second week, with the Tokyo markets on holiday on October 10, the pair edged up to 145.80 yen. The pair was now just below its level from the time of the previous intervention (145.90 yen), so it moved with a heavy topside on a sense of caution. It traded flatly just below 145.90 yen on October 11, but it topped 145.90 yen to hit 146 yen during Asian trading time on October 12. The pair then climbed to 146.98 yen as the yen was sold after BOJ governor Haruhiko Kuroda said the BOJ would continue to ease in order to hit its target for price stability. The US September CPI data was released on October 13. The composite and core figures both topped forecasts, so the pair then rose to 147.66 yen. The pair temporarily topped its 1998 high of 147.64 yen, though it then fell back slightly on concerns of an intervention. On October 14, Japanese finance minister Shunichi Suzuki and BOJ governor Haruhiko Kuroda both made verbal interventions to curb the yen's slide, but the yen continued to move bearishly on rising US interest rates. The US then released some worse-than-expected September retail sales data, so the yen was bought back. However, the currency pair then hit 148 yen and climbed to 148.86 yen on the result of the October University of Michigan Consumer Sentiment Index.

In the third week, amid a dearth of noteworthy factors, investors gradually began testing the yen's room on the downside on October 17. With a slight risk-on mood prevailing in the markets, US stocks bounced back sharply and US interest rates fell slightly, though the yen was not bought back and the currency pair traded at 149 yen. On October 18, the pair plummeted by around one yen to temporarily hit 148.13 yen during European trading time, but it then renewed a high of 149.39 yen as the yen weakened during US trading time. The yen remained bearish thereafter, with the pair hitting 149.90 yen on October 19. The pair climbed to 150 yen on October 20 and then hit 151.94 yen during US trading time on October 21. However, the greenback was then sold on reports that the FRB might slow the pace of its rate hikes. With the yen also bought substantially on whispers of a market intervention, the currency pair plunged to 145.50 yen.

In the fourth week, the yen was bought back sharply during the start of Asian trading time on October 24, though the pair remained deadlocked at 149 yen. It then fell to 147.52 yen on October 25 on the weak result of the October US Consumer Confidence Index. The dollar was sold further as US interest rates fell, with the pair sinking to a low of 145.11 yen on October 27. US interest rates then bounced back and the pair rallied slightly to move at 147 yen towards the month's end.

2. Outlook for This Month

Investors will continue to test the dollar/yen pair's upside in November.

The markets have essentially factored in a 75bp rate hike when the FOMC meets on November 2. As such, a 75bp rate hike itself is unlikely to sway the markets, so observers will be listening out for hints about the scale of the next rate hike when the FOMC meets on December 14. Most observers are predicting a 50bp hike, though quite a few are also predicting a 75bp hike.

When the US September CPI data was released last month, it revealed that overall prices had risen by 8.2% y-o-y, with the figure down on August's 8.3% figure owing to falling fuel costs. However, the core CPI figure had risen from 6.3% in August to 6.6%, mainly due to rising rents. With the FRB prioritizing the fight against inflation, it seems the FOMC will continue making hawkish comments as long as inflation indicators continue swinging upwards.

BOJ governor Haruhiko Kuroda has said on several occasions that the BOJ will remain in easing mode, with Japan now the only major nation with negative interest rates. If the November 2 FOMC meeting also turns out to be hawkish, the yen will slide as investors focus on the divergent monetary policy stances of the US and Japan.

However, there are several factors that could push the dollar/yen pair lower in the short term.

For example, some FRB officials have voiced concerns about the negative economic impact if the FRB tightens too much. Market participants are pricing in rate hikes, with US short-term rates rising at a fast pace, but if officials voice similar concerns going forward, the greenback could be sold as US interest rates slide.

Furthermore, the Japanese authorities have often made comments aimed at reining in speculative yen selling. The markets remain on guard against yen-buying interventions, so the yen might be bought back unexpectedly at times.

Japan lifted restrictions on foreign tourists on October 11, with many tourists already planning to visit Japan. Inbound spending by these visitors will probably curb the yen's slide to a certain extent.

Given all this, it seems the yen will continue to move bearishly overall, though there will probably be some short-term dips, with the pace of the yen's slide slowing.

Dealers' Market Forecast

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

Bullish on the dollar	12 bulls	152.00 – 144.75	Bearish on the dollar	6 bears	150.50 – 142.00
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* Ranges are central values

Yano	Bear	150.00 – 142.00	The stance of the authorities to yen bearishness suggests concerns of an intervention will grow when the dollar/yen pair hits highs, so room for interventions will be limited going forward. If it seems the US employment data and CPI data, etc. are peaking out, the pair might be adjusted downward on price fluctuations. Investors should be wary of downside risk.
Tsutsui	Bull	153.00 – 146.00	Though the pace of rate hikes may slow, investors are expecting the US policy rate to hit 5% in the face of high inflation, with the US economy also set to move firmly. There will be hearty demand for the dollar among importers and so on, with the yen likely to continue edging down against the greenback.
Kato	Bear	152.00 – 142.00	The financial markets are worried that FRB tightening might lead to a global economic slowdown, but the US authorities do not feel a need to correct the dollar's bullishness. The Japanese authorities will need to hold civil yet effective talks with the US authorities and market participants in order to curb speculative activity.
Yamazaki	Bear	148.00 – 140.00	The dollar/yen pair will probably be pushed down slightly by concerns about the direction of the US economy. Investors will probably start looking for a turning point in the pair's direction. However, if the pair does fall, it will probably do so at a fast pace and its downside could hit 140 yen.
Ito	Bear	152.00 – 145.00	The greenback has been sold on expectations for a Fed pivot, but there is still no evidence that inflation is slowing, so the dollar will probably move bullishly. However, if moves to curb inflation gradually start to work, the dollar/yen pair's topside will grow heavier.
Yamagishi	Bull	152.00 – 144.00	The most recent US indicators show consumer spending and employment continuing to move firmly. US interest rates could peak out toward the year's end as rate hikes are scaled back, but there will be real demand for yen selling on Japan's trade deficit (over 11 trillion yen in 1H), so the dollar/yen pair is unlikely to undergo a sharp fall.
Omi	Bull	155.00 – 145.00	The dollar/yen pair will continue to rise as the US moves to aggressively tighten policy. However, the speed of this rise could be slowed by interventions. The Dollar Index is also moving at highs, so investors should be on guard against adjustments to the trend of dollar bullishness.
Ueno	Bull	152.00 – 146.00	Amid growing expectations that the pace of rate hikes could ease within the year, the dollar/yen pair is losing an upward trigger as US treasury yields slide. However, investors have substantially priced in a slower pace of rate hikes. With yen-buying factors also thin on the ground, the pair will continue to face topside risk.
Kai	Bull	153.00 – 146.00	The FOMC will probably reaffirm its hawkish stance when it meets in November. Expectations for rate hikes will flare up again until inflation clearly slows, so the dollar/yen pair looks set to rise as US interest rates climb.
Matsunaga	Bear	151.00 – 144.00	The BOJ expects inflation to drop below 2% from 2023. With the FRB still committed to tackling inflation, the yen will remain bearish as investors focus on the divergence between US and Japanese monetary policy. The pair's topside will be capped by concerns of an intervention around 150 yen.
Onozaki	Bear	150.00 – 142.00	Investors have finished pricing in the divergent monetary policies of the US and Japan. The dollar/yen pair's topside will be capped by growing concerns of an intervention when the pair tops 150 yen. If investors grow wary of testing the pair's highs, they should also be on guard again downside risk.

Harada	Bull	154.00 – 143.00	The BOJ confirmed that it would continue to ease at the Monetary Policy Meeting last month, with attention now focused on the pace of US rate hikes. There will be sporadic yen-buying interventions, but the dollar/yen pair will continue to rise on interest rate differentials.
Katoono	Bull	151.50 – 144.50	Clouds have started to appear in recent economic indicators, with attention now focused on whether the FOMC will slow the pace of rate hikes when it meets in December. However, the FRB will probably reaffirm its commitment to tackling inflation in November too, with the dollar/yen pair likely to float at highs on soaring US interest rates.
Kobayashi	Bull	152.00 – 143.50	The yen rose for a time on expectations for a slower pace of rate hikes, but the dollar/yen pair then strengthened again after BOJ governor Haruhiko Kuroda reaffirmed his commitment to easing. The dollar will continue to be bought against the yen on the divergent monetary policy stances of the US and Japan.
Henmi	Bull	153.00 – 143.00	There is still a shortage of reasons to buy the yen. However, it is hard to gauge the real situation when it comes to US employment and inflation, for example, with markets speculating that the FRB will slow the pace of tightening after previously implementing sharp rate hikes at successive meetings. Investors should also be wary of upside risk if things turn out differently.
Suzuki	Bull	152.00 – 145.00	The FOMC might slow the pace of rate hikes, but the yen will still be sold on Japanese/US interest-rate differentials. The dollar/yen pair's bullish momentum will be slowed by concerns of an intervention, but the pair is likely to remain firm.
Kimura	Bull	152.00 – 145.00	The dollar/yen pair looks set to move firmly on the clear difference in US and Japanese monetary policy stances, but there are growing expectations that the FRB will slow the pace of rate hikes. With concerns of an intervention also smoldering away, the pace of the pair's rise will probably slow.
Okuma	Bull	152.00 – 144.00	With the US economy remaining firm, the FRB has hinted that it might slow the pace of rate hikes. However, Japanese/US interest-rate differentials continue to widen. Though the dollar's topside will be capped, the yen will remain bearish, with the dollar/yen pair set to move firmly.

Euro – November 2022

Expected Ranges

Against the US\$: US\$0.9600–1.0150

Against the yen: JPY141.00–149.00

1. Review of the Previous Month

On October 3, the euro/dollar pair moved firmly to rise to the mid- $\$0.98$ level on falling US interest rates. It rose to around $\$0.99$ on October 4 on firm stock movements and it then climbed to a weekly high of $\$0.9999$ as investors tried to push the pair to parity (1 euro = 1 dollar) for the first time since September 20. Investors tested parity again on October 5, though the pair remained at $\$0.9995$. The euro was then sold on the release of a bearish composite eurozone PMI for September. With the dollar also bought on bullish US economic indicators, the pair dropped out of the $\$0.99$ range to plunge to the lower- $\$0.98$ level. The euro remained bearish on October 6, with the pair dropping to $\$0.9789$. After floating right around $\$0.98$, the pair then dipped to the lower- $\$0.97$ mark on October 7 as the greenback was bought on the results of the US September employment data.

Though the pair rose to the mid- $\$0.97$ level on October 10, it continued moving bearishly. The pound was sold on October 11 after BOE governor Andrew Bailey said the central bank would wind down its emergency government bond buying program, with the euro/dollar pair also moving with a heavy topside at the lower- $\$0.97$ mark. The pair continued trading with a lack of direction around $\$0.97$ on October 12. It plunged to the lower- $\$0.96$ mark on October 13 on the results of the US September CPI data, though it then soared to $\$0.9806$ as European stocks rallied. The pair was dragged higher by the pound to hit $\$0.9808$ on October 14.

The pair surged to the mid- $\$0.98$ mark on October 17 on firm European stock movements, though it temporarily fell to the lower- $\$0.98$ level on October 18 as the euro was pulled lower by a bearish pound. The pair plummeted to the mid- $\$0.97$ range on October 19 as the dollar was bought on rising US interest rates and bearish European stock movements. Stock markets bounced back on October 20. With the pound also rising after UK Prime Minister Liz Truss announced her resignation, the euro/dollar pair rocketed to the mid- $\$0.98$ level. The pair fell to the lower- $\$0.97$ mark on October 21 as US long-term interest rates climbed to 4.3%. However, the dollar/yen pair then plunged by around six yen on what seemed to be a veiled intervention by the Japanese authorities, with the euro/dollar pair also pulled up to the mid- $\$0.98$ level.

The pair fell to $\$0.9807$ on October 24 on the lackluster result of the eurozone Manufacturing PMI for October. On October 25, though, the euro was bought at a faster pace on firm European stocks and the bullish result of the German IFO Business Climate Index for October, so the pair rose to the upper- $\$0.99$ mark. The pair regained parity on October 26 on the back of firm European stock movements. It then surged to the upper- $\$1.00$ mark to move at its highest levels for around six weeks. The pair was supported by the ECB decision to hike rates on October 27, but it then fell to the mid- $\$0.99$ mark as the dollar was bought on the firm results of the US 3Q GDP data. It temporarily climbed to $\$0.9998$ on October 28, but it failed to hit parity and then fell back to $\$0.9928$. The pair continued to be weighed down by rising US interest rates on October 31, with the pair moving with a sense of direction at the mid- $\$0.99$ mark ahead of the FOMC meeting.

2. Outlook for This Month

The euro/dollar pair is expected to trade with a heavy topside this month. There are growing concerns about an economic slowdown as the ECB continues to lift interest rates and energy concerns increase as winter looms and the Ukraine crisis continues. Given this uncertainty about the future, it seems the currency pair will trade with a heavy topside. As broadly expected, the ECB instituted a 75bp rate hike when it met last month. This was the third hike in a row and the second successive 75bp raise. The ECB also lifted its deposit rate from 0.75% to 1.50%, its highest level since 2009. It also recalibrated the conditions of its third targeted long-term refinancing operation (TLTRO3). Its goal was to ensure lending conditions appropriately reflected a rise in interest rates due to rate hikes. A further aim was to encourage banks to repay loans earlier and thus remove one impediment blocking its tightening policies from working. All this sent a clear sign that the ECB was now in tightening mode. However, the ECB also said it would continue re-investing repayments on bonds purchased under its asset purchasing program (APP), with the debate about shrinking its bond holdings also kicked back to December. The accompanying statement hinted at further rate hikes, but the phrase about raising rates “over the next several meetings” was removed this time, with the euro subsequently sold on expectations for a slower pace of ECB rate hikes. In her press conference, Christine Lagarde said the Governing Council expected “to raise interest rates further, to ensure the timely return of inflation to our two per cent medium-term inflation target.” With the ECB president also setting a concrete date of December for the debate about QT, the euro was not sold excessively. However, though there had been momentum before the meeting to push the euro/dollar pair over parity, this momentum now waned.

Inflation remains high within the eurozone and in September it hit 9.9% to hit a record high for the fifth straight month. As it prioritizes the fight against inflation, the ECB will be reluctant to slow the pace of rate hikes. However, concerns about energy supplies on the deadlocked Ukraine situation will intensify as winter approaches and the ECB will find it very hard to deal with differences in the eurozone, with some nations suffering from the effects of rising interest rates. Long-term interest rates continue to climb in Italy, a country beset with fiscal uncertainty, with the differential between Italian and German interest rates topping 2%. QT is a double-edged sword. Though the ECB Governing Council decided not to discuss QT in October, it will be doing so in earnest from December onwards. Debt concerns could rise again depending on how discussions progress, with stagflation becoming even more of a pressing concern. The ECB released its Survey of Professional Forecasters on October 28. The Survey predicted the inflation rate would stand at 5.8% in 2023, up on the ECB's forecast of 5.5%. At 0.1%, its growth rate outlook for 2023 was also own sharply on the ECB's 0.9% forecast, with the Survey moving one step closer to the ECB's pessimistic scenario (-0.9%). A civil dialogue with the markets and expert handling will be needed as the ECB seeks to tackle inflation and a slowing economy. Under these circumstances, it will remain hard for investors to build up euro long positions.

Dealers' Market Forecast

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

Bullish on the euro	6 bulls	1.0325 – 0.9700	Bearish on the euro	12 bears	1.0125 – 0.9500
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* Ranges are central values

Yano	Bull	1.0200 – 0.9700	The ECB is moving faster to control inflation and it has lifted its deposit facility rate for the second successive meeting, for example. Overheating is gradually starting to cool off in the US, but Europe is not at this stage yet, with the euro/dollar pair's downside set to move firmly on shrinking European/US interest-rate differentials.
Tsutsui	Bear	1.0000 – 0.9500	The Russia/Ukraine situation remains deadlocked and the Chinese economic slowdown is making the stagflation situation even worse. With the ECB clearly implementing dovish hikes, the euro/dollar pair will continue to move bearishly on widening US/German interest-rate differentials.
Kato	Bear	1.0100 – 0.9600	The euro has been supported by solid supply and demand pressures on the back of the eurozone's trade surplus. However, this flow has eased off and consistency in economic policy is growing more important. Germany, etc., are closer to stagflation conditions than anywhere else in the world.
Yamazaki	Bull	1.0350 – 0.9750	The euro will remain a hard currency to buy, though the euro/dollar pair could rise if the greenback is sold on concerns about a US economic slowdown. However, the pair's room on the topside will be capped and its rise will be short-lived, with the pair set to continue trading with a heavy topside.
Ito	Bear	1.0200 – 0.9500	The euro/dollar pair was once bought back on expectations for the FRB's monetary tightening faded. However, the environment around Europe remains tough, so the pair looks set to continue trading with a heavy topside. The data has yet to suggest that inflation is slowing. The pair will probably be swayed as investors price in US monetary policy.
Yamagishi	Bull	1.0400 – 0.9600	The euro/dollar pair will move firmly on expectations for further ECB rate hikes. Inflation has soared to record highs around 10%, higher than in the US or Japan, with concerns growing about an inflationary spiral as prices rise into the long term. There is still ample room for rate hikes, with the charts also hinting that the 18-month downward trend might be hitting bottom.
Omi	Bear	1.0100 – 0.9500	The euro/dollar pair will be weighed down by Europe's energy problems and concerns about an economic slowdown. However, the pair's room on the downside will be capped by aggressive ECB rate hikes.
Ueno	Bull	1.0300 – 0.9700	The euro/dollar pair will continue to be swayed by US monetary policy. The euro lacks any buying reasons of its own, but it could be buoyed by rising expectations for a slower pace of US rate hikes. The pair will probably become entrenched above parity.
Kai	Bear	1.0000 – 0.9500	US interest rates will rise again on the hawkish November FOMC meeting, with the dollar likely to be bought and the euro sold. With Russia leaning toward a full mobilization, commodity prices and geopolitical risk will probably rise. The next ECB meeting is set for December 15. Monetary policy expectations will probably wane as a factor for now.
Matsunaga	Bear	1.0100 – 0.9500	The euro/dollar pair looks set to move bearishly on concerns about stagflation in the eurozone on external factors like the Ukraine problem and the bearish Chinese economy. The pair will also be weighed down as the ECB slows the pace of rate hikes.
Onozaki	Bull	1.0500 – 0.9700	As moves to factor in FRB rate hikes draw to a close, the ECB continues to hike rates. There are a number of worrisome factors, but the euro/dollar pair will gradually recover.

Harada	Bear	1.1000 – 0.9600	The euro/dollar pair bounced back to above parity in the latter half of October as moves to factor in US rate hikes drew to a close. However, the eurozone faces energy problems and a deadlocked Ukraine situation, so there is a lot of concern about the eurozone economy. Under these circumstances, the pair is expected to continue trading with a heavy topside.
Katoono	Bear	1.0150 – 0.9600	There are growing concerns about an economic slowdown as the ECB continues to lift interest rates and concerns about Russian energy supplies grow in the run up to winter. Given this growing uncertainty about the future, it seems the currency pair will trade with a heavy topside.
Kobayashi	Bear	1.0200 – 0.9600	The euro/dollar pair will return to parity as expectations grow for a slower pace of rate hikes in the US. However, geopolitical risk related to Ukraine is becoming a long-term problem, with the eurozone also facing energy shortage problems. As such, the eurozone economy is unlikely to recover, with the euro/dollar pair set to move bearishly.
Henmi	Bear	1.0100 – 0.9400	Given the weakness of the eurozone economy, it seems the ECB will find it hard to follow the FRB into introducing successive large-scale rate hikes. There are no signs that uncertainty related to Ukraine or energy supplies will ease off, with the euro/dollar pair likely to continue moving bearishly.
Suzuki	Bull	1.0200 – 0.9970	There remain a number of concerns related to the Ukraine situation and so on, but investors are starting to price in a slower rate of US rate hikes, so the euro will be adjusted after previously being oversold. The main focus this month will be offensive and defensive moves when the euro/dollar pair approaches parity.
Kimura	Bear	1.1000 – 0.9500	The euro/dollar pair rose at the end of October on expectations for a slower pace of rate hikes in the US. However, it seems the pair will trade with a heavy topside when it moves above parity. The eurozone will be weighed down by rising energy demand in winter, with the pair likely to trend downwards again.
Okuma	Bear	1.1000 – 0.9700	Europe continues to face uncertainties related to the energy problem and the Ukraine situation, with the euro/dollar pair likely to move heavily at Europe faces deeper inflationary concerns than the US. Furthermore, though US economic indicators are moving firmly, indicators in Europe are showing signs of weakness, with the euro likely to move bearishly as a result.

British Pound – November 2022

Expected Ranges

Against the US\$: US\$1.1000–1.1900

Against the yen: JPY163.00–175.00

1. Review of the Previous Month

The GBP/USD pair rose in October.

UK government bonds (gilts) were bought back on October 3 on news that the UK Treasury would be revising some of the proposed tax cuts. The currency pair was also bought back to the mid-\$1.12 mark, though some profit taking soon followed. On October 5, the pair was bought back to the upper-\$1.14 mark on composed gilt movements, though this momentum was short-lived. The pair was held down by dollar buying on October 7 after the release of the firm US September employment data, with the pair hitting a mid-month low of \$1.0925 on October 12. During this time, the BOE announced it was ramping up its emergency purchases of long-term bonds, with inflation-linked bonds also added to the program. The UK Treasury also brought forward its budget plan announcement from November to the end of October. However, the impact of all this on the pound was negligible. With the aforementioned emergency bond-buying program set to wind down at the week's end, the GBP/USD pair was bought back again on October 12. The pair rallied to \$1.13 on October 13 on news that the UK government had begun revising its program of tax cuts. On October 14, Jeremy Hunt was appointed as Treasurer to succeed Kwasi Kwarteng and he announced that the planned tax cuts would be scrapped. On October 17, it was announced that the entirety of Prime Minister Liz Truss's proposed tax cuts would be scrapped. This brought an end to the turmoil that had swept UK financial markets from the end of September (on October 20 Liz Truss stepped down as Prime Minister after just 45 days, the shortest term in British history). The dollar was then bought at a faster pace. On October 20, US interest rates faced more upward pressure, with the yield on 10-year treasuries topping 4.2% for the first time since 2007, for example. The pound and euro were both sold, with the GBP/USD pair falling to \$1.10 on October 21. Gilts were bought back at the start of the following when as fiscal concerns eased on the growing likelihood that Rishi Sunak would become the next Prime Minister. The currency pair also rose to around \$1.14 for a time. The greenback was sold and the pair rallied to \$1.14 on October 25 on some weak US house price data. The pair fell for a time after the new UK government postponed its budget announcement to November 17, but the pair then climbed back to its monthly high of \$1.1645 on October 27.

On October 11, meanwhile, the GBP/JPY pair dropped below 160 yen, but with the yen remaining bearish, the pair then rose to 170 yen on October 17, its highest level since before the Brexit referendum in 2016. With the USD/JPY pair jostling up and down over October 21–24, the GBP/JPY pair moved between 165 yen and the upper-169 yen level. The pound was bought on October 25, with the pair climbing back to 170 yen. The pair continued floating around 170 yen until the month's end.

2. Outlook for This Month

The GBP/USD pair will probably trade with a heavy topside in November.

The proposed tax cuts have been scrapped, but the fiasco reminded the financial markets of the difficult situation the UK is in as a country with a current account deficit, so gilt market trends will require monitoring going forward. The new Prime Minister had previously lost out to Liz Truss in the final vote to decide the next Tory Party leader in September, but he is known for his cautious stance, having previously indicated that tax cuts should only take place after inflation cools off, for example. The mid-term fiscal plan will be released on November 17 and gilts might fluctuate sharply depending on the details, so caution will be needed. However, though the scrapping of the tax cuts will contribute to sounder finances, the UK economy and sentiments will move negatively, at least in the short term, so economic indicators might slow going forward, with investors also focused on the risk of a slower pace of BOE rate hikes. Mortgage rates also soared on short-term interest rate rises, with some lenders suspending any new loans as a way to cope with the turmoil. In the UK, people usually refinance fixed-rate loans, but many borrowers found their monthly repayments rising by several hundred pounds a month after refinancing (2-year fixed rates appear to be about three times higher than the previous year). This will probably put a dampener on consumer spending.

The BOE Monetary Policy Committee (MPC) meeting on November 3 will also be attracting attention. BOE MPC member Ben Broadbent said late October that “whether official interest rates have to rise by quite as much as currently priced in financial markets remains to be seen.” According to Colin Asher, Senior Economist at Mizuho Bank’s London Branch, Mr Broadbent is known for his neutral stance and often votes with the majority, with a rate hike to the tune of 0.75% looking likely when the BOE meets in November. Sterling will only have limited room to rise on a hike of this size, but attention will focus on the vote split as investors try to gauge the BOE’s next move.

A glance at implied volatility in the currency options markets suggests the GBP/USD pair will probably fluctuate by around $\pm 1.7\%$ until after the BOE meeting, with the pair expected to fluctuate by around $\pm 3\%$ over a one-month period. Furthermore, though composure has returned compared to when the pair plummeted at the end of September, pound put options (selling rights) continue to be priced higher than call options (buying rights), with market participants remained more concerned about downside risk.

Australian Dollar – November 2022

Expected Ranges

Against the US\$: US\$0.6170–0.6600

Against the yen: JPY92.00–96.40

1. Review of the Previous Month

In October, the AUD/USD pair fell to \$0.6170, its lowest level in two-and-a-half years, though it then rallied to around \$0.64. The pair fell from \$0.65 to \$0.63 early October. Concerns about excessive FRB tightening eased on the bearish results of some US indicators, with the Australian dollar supported as US interest rates fell and US stocks rebounded sharply. The pair also rose on news that OPEC+ was discussing production cuts. However, the RBA then implemented a smaller-than-expected 25bp rate hike and this suggested that interest rates might peak out earlier than the markets were expecting. Rates on three-year Australian government bonds fell to their lowest level since 2008, with the AUD/USD pair also dropping to the mid-\$0.64 level. The greenback was then bought on the firm results of the US September employment data, with the currency pair sliding to the upper-\$0.63 level.

The pair moved in range from \$0.6170 to the mid-\$0.63 level mid-October. Investors continued to buy the US dollar in the wake of the stronger-than-expected US September employment data. With stocks moving bearishly on news about intensified fighting in Ukraine, investors then tested the AUD/USD pair's downside. The US September CPI data was released on October 13. The headline and core figures were both up on expectations, with inflation hitting a 40-year high of +8.2% y-o-y. Stocks plunged and US interest rates soared as a result, with the currency pair falling sharply to \$0.6170. Consumer sentiments then improved after the UK scrapped its planned tax cuts, for example, with the Australian dollar supported as stocks rose, The pound then soared on news about the resignation of UK Prime Minister Liz Truss. With investors also testing the Australian dollar's topside, the AUD/USD pair rose to \$0.6356 for a time. US interest rates then rose and stocks fell after Philadelphia FRB president Patrick T. Harker said "I expect [the federal funds rate] will be well above 4% by the end of the year... I think we should hold at a restrictive rate for a while." The AUD/USD pair was also sold sharply to around \$0.6280.

The pair fell to \$0.6210 late October, but the greenback was then sold on reports that the BOJ had intervened to buy the yen, so the AUD/USD pair bounced back from \$0.6210 to \$0.64. Yields on US treasuries were also held down by reports that some FRB officials were concerned about excessive monetary tightening, with the Australian dollar pushed up as US stocks rallied. The Australian 3Q CPI data was released on October 26 and it confirmed that inflationary pressure remained in place, thus supporting the idea that the RBA should continue tightening. The pair moved around \$0.64 toward the month's end.

2. Outlook for This Month

The Australian 3Q CPI data was released last month, with every item up on the previous result and inflation hitting its highest level in 32 years. This confirmed that inflation was accelerating. A glance at the details of the q-o-q rise reveal that inflation was pushed up in large part by the housing sector (prices up +10.5%), public transport (prices up 9.2%) and food (excluding alcohol; prices up 9.0%). The RBA has just scaled back its rate hikes from

50bp to 25bp in October, with attention now focused on whether the RBA will revise its outlook for Australian rate hikes and the terminal rate when it meets on November 1. A 50bp rate hike is not completely off the table, but most market participants are expecting a 25bp rate hike. Some financial institutions have upgraded their projection for the peak rate by around 50bp. Two days later, during the morning of November 3 (Sydney trading time) the FOMC will make a policy rate announcement, with the markets expecting a 75bp rate hike. The employment situation is very tight in Australia, with consumer spending and business sentiments remaining buoyant, so the situation is ripe for further rate hikes. However, with the US authorities apparently prepared to prioritize the fight against inflation and tackle accelerating inflationary pressures through even bigger rate hikes, it seems US/Australian interest-rate differentials will widen toward 2023, with futures currently suggesting this widening will peak toward February next year. As such, the AUD/USD pair will probably be weighed down as funds continue to flow toward the greenback.

The Fibonacci data shows the Australian dollar's rise at the end of October stopping at \$0.6522, a figure that represents 23.6% of its 2022 high (\$0.7661 on April 5) and 2022 low (\$0.6170 on October 13). If the pair rises higher, the next target will be 38.2%, or \$0.6740. If it does break above 23.6% (\$0.6522) to head toward 38.2%, \$0.6522 could become its support line, so caution will be needed. The currency pair's downside is unlikely to rise sharply higher given price movements and US/Australian interest-rate differentials, but it could well break above this 23.6% level at times on news about dollar-buying interventions or a surprise announcement by the RBA, for example. For the time being, investors will be focusing on RBA/FOMC tightening and the outlook for the terminal rate.

Canadian Dollar – November 2022

Expected Ranges

Against the US\$: C\$1.3300–1.3800

Against the yen: JPY103.00–111.00

1. Review of the Previous Month

The USD/CAD pair opened October trading at C\$1.3725. Tensions related to the Ukraine situation increased after Russia annexed four Ukrainian territories and a blast hit the Crimea Bridge. With inflation still running wild, central banks continued to implement large rate hikes. The US dollar rose across the board on the possibility that the US terminal rate might hit 5%. However, concerns about a global economic slowdown increased as the data started to show signs of a stalling economy. The greenback was sold late October on rising expectations that the FRB would slow the pace of rate hikes.

The Canadian dollar moved bullishly at the start of the month after the US released a bearish Manufacturing ISM Report on Business for September, with the US releasing some mixed economic data thereafter too. Crude oil prices soared on October 5 after OPEC+ announced it was cutting production by a substantial two million barrels a day. The Canadian dollar was bought and the currency pair fell to the lower-C\$1.35 level. However, the pair's downside grew firmer and the pair rallied after several FRB officials made hawkish comments about their commitment to tackling inflation. The US and Canadian employment data was released on October 7. Both moved firmly, with the number of people in work in Canada increasing for the first time in four months, for example.

The US September CPI data was released on October 13, with core CPI hitting a 40-year high. This saw the USD/CAD pair surging to C\$1.3977 for the first time since 2020. The markets had been thrown into confusion by a UK government policy announcement, but these economic policies were now scrapped. Shares were also bought after several US companies released healthy settlement results. As a risk-on mood prevailed, the USD/CAD pair dropped back to the lower-C\$1.37 level.

On October 21 after San Francisco FRB president Mary C. Daly said the FRB should begin shrinking the scale of its rate hikes. The Wall Street Journal (WSJ) also reported that the FOMC might start slowing the pace of rate hikes when it met in December. As expectations for large-scale rate hikes receded, the currency pair dropped to C\$1.3630. The preliminary US Composite PMI for October then dropped below 50 for the fourth straight month. With the US continuing to release some lackluster economic indicators, the greenback moved bearishly on a lack of buying factors.

The Bank of Canada (BOC) implemented a 50bp rate hike when it met to set policy on October 26, with its policy rate lifted to 3.75%. This hike was smaller than expected, so the Canadian dollar was sold and the currency pair rose to the mid-C\$1.36 mark, though it soon dropped back to the mid-C\$1.35 level. Though the ECB hiked rates by 75bp on October 27, it inclined in a dovish direction, with US long-term interest rates falling on a growing sense that the FRB would follow suit. As a result, the pair fell to C\$1.3496. With the greenback remaining bearish at the month's end, the pair moved with a lack of direction ahead of the FOMC meeting.

2. Outlook for This Month

With gasoline prices falling sharply, Canada's inflation rate fell for the third straight month in September, from 7% in August to 6.9%. However, food prices soared to a 41-year high of 11.4%. With core inflation also moving flatly on the previous month, inflationary expectations are also high.

The labor market remains tight, with wages up by 5%. According to the BOC's closely-watched Business Outlook Survey, corporate and consumer sentiments fell sharply from 2020. Under these circumstances, though the markets were expecting the BOC to implement a 75bp rate hike when it met in October, in the end of decided on a smaller-than-expected 50bp hike. In his press conference, BOC governor Tiff Macklem said Canada might be entering a recession, though he hawkishly stressed the need for ongoing rate hikes. He also said the BOC might implement a 25bp or 50bp rate hike when it met in December. The BOC downgraded its 2022 inflation rate forecast from 7.2% in July to 6.9%, with inflation expected to hit 3% by the end of 2023 before returning to the 2% target by the end of 2024. The BOC forecast that growth would slow from the latter half of 2022 to the start of 2023, with its growth outlook for 2023 lowered from 1.8% to 0.9%. With the BOC slowing the pace of rate hikes, investors have begun to predict that other central banks will ease up on aggressive rate hikes.

It seems the FOMC will implement a 75bp rate hike when it meets on November 2, with the FRB likely to remain hawkish when it comes to tackling inflation, but US economic indicators are showing signs of a slowdown, so attention will focus on what FRB chair Jerome Powell says about the pace of rate hikes going forward. The US will also be holding mid-term elections on November 8. Though Democrats and Republicans are battling it out in the Senate, a Republican victory in the House of Representatives seems likely. If the US ends up with a divided Congress, the greenback will be sold, but if the Republicans win both chambers, the US dollar will probably be pushed even lower on the likelihood the Republicans will try to curb the unit's bullishness.

Crude oil prices might swing lower on recessionary concerns and uncertainty related to the economic policies of the Chinese Communist Party's new leadership, but supply concerns will probably rise toward winter, with an EU ban on Russian crude set to begin in December. The greenback could rise this month on growing political tensions related to the ongoing Ukraine situation, for example, but with investors also focusing on the possibility of US-dollar bearishness, the USD/CAD pair will probably move between C\$1.33–1.38.

Korean Won – November 2022

Expected Ranges

Against the US\$: KRW 1,390–1,460

Against the yen: JPY 10.101–10.638 (KRW100)

1. Review of the Previous Month

The USD/KRW pair moved flatly in October. With interest rates falling during overseas trading time, the pair began the month trading at KRW1428.0 on October 4. Investors were expecting the Reserve Bank of Australia to implement a 50bp rate hike, but in the end it only lifted rates by 25bp, with US interest rates and so on then falling on growing expectations that the FRB would slow the pace of rate hikes too. There were no other noteworthy factors that week, but with liquidity falling, market participants continued unwinding their USD/KRW pair stop transactions until October 6. The pair subsequently fell to KRW1397.1. The South Korean September CPI data was released on October 5 (forecast = 5.7% y-o-y; result = 5.6% y-o-y), but the impact was negligible. However, the US then released some buoyant employment data during overseas trading time on October 7 (forecast = +255,000 persons; result = +263,000 persons). With news also emerging that China was ending lockdowns in over thirty cities, the pair soared to KRW1438.1 on October 11. As expected, the BOK implemented a 0.5% rate hike (2.5%→3.0%) when it met to set policy on October 12. The markets had already priced in the hike, so the impact on the USD/KRW pair was limited. Interest rates rose in Europe and elsewhere on October 19 after the UK September CPI data showed inflation standing at 10.1%. During overseas trading time on October 20, the Philadelphia FRB president said the federal funds rate could rise well above 4% by the end of the year. With employment indicators also moving bullishly, yields on 10-year US treasuries temporarily hit 4.3%. The RMB then weakened on concerns about the National People's Congress in China, with the USD/KRW pair rising to a monthly high of KRW1444.2. However, there was a growing sense that interest rates had risen too high, with US rates of all terms falling back on October 25 after the Bank of Canada governor hinted that the phase of rate hikes was coming to an end. With the dollar sold across the board, the USD/KRW pair also fell. In the end, the pair closed at KRW1424.3, up 5.9 won on the end of September.

2. Outlook for This Month

The USD/KRW is expected to swing down and up in November.

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

(1) Inflation changes and FRB monetary policy, and (2) BOK monetary policy.

With regards to (1), US interest rates of all terms rose from early to mid-October on the bullish US employment data and stubbornly high expected inflation rates. US rates then fell late October after several FRB officials hinted at a slower pace of rate hikes. Employment is moving strongly and housing indicators are showing no signs of deterioration, though, so rather than signaling a shift in the trend of rising interest rates and dollar buying, this fall was probably due to a correction to the rise that began in August. A lot will depend on the FOMC meeting on November 3, but with inflation still high, there is unlikely to be any comprehensive dollar selling.

As for (2), the BOK implemented a rate hike (2.5%→3.0%) on October 12. The BOK governor has predicted

that South Korea's policy rate will end up around 3.5%. This suggests that while the BOK will continue lifting rates to tackle won bearishness, it is also worried about the negative impact of rate hikes on household finances. However, market conditions are not good in South Korea, with liquidity concerns growing following a missed repayment on a corporate bond guaranteed by the local government. Under these circumstances, the South Korean government and the BOK is developing policies to provide liquidity. Based on this, investors will probably find it hard to actively buy the won this month.

In light of the above, it seems the USD/KRW pair will undergo a structural rise in November. After rising sharply in September, the pair fell slightly on some adjustment in October, but with semiconductor market conditions worsening and energy prices soaring, South Korea's trade deficit situation is unlikely to change. It is hard to imagine hopes rising when it comes to South Korean companies, with overseas investors likely to continue adjusting their purchases of South Korean stocks.

New Taiwan Dollar – November 2022

Expected Ranges

Against the US\$: NT\$31.80–33.10

Against the yen: JPY4.40–4.66

1. Review of the Previous Month

The USD/TWD pair rose in October to hit its highest level in around five years and ten months.

The pair opened the month trading at TWD31.790 on October 3. With overseas investors selling the Taiwan dollar, the pair rose to TWD31.8 for a time. However, concerns about monetary tightening then eased after the US September Manufacturing ISM Report on Business dropped below expectations. US stocks bounced back and Taiwanese stocks also rose on October 4, with investors then buying the Taiwan dollar. Expectations for tightening faded further after the RBA implemented a small 0.25% rate hike. As US long-term interest rates fell, the Taiwan dollar was bought back. Taiwanese stocks then moved firmly, with the USD/TWD pair falling below TWD31.5 on October 6 for the first time in two weeks before dropping temporarily to TWD31.485. However, importers than bought the greenback below TWD31.5, so the pair returned to TWD31.5.

Concerns about US monetary tightening grew after the markets emerged from vacation on October 11. This came in the wake of the previous week's release of the US employment data. Taiwanese stocks fell sharply and the US dollar was bought. The currency pair hit TWD31.9 on October 12, but exporters then sold the greenback, so the pair continued moving flatly as it was bought and sold around TWD31.9. However, the pair then rose sharply on October 17 as overseas investors sold the Taiwan dollar, with the pair rising to TWD32 for the first time in around five years and nine months. Exporters sold the greenback above TWD32, though, so the pair's topside was capped and it then moved in a range right around TWD32.000.

It broke above this range to hit TWD32.1 on October 20 as Taiwanese stocks fell, but these stocks then pared back losses on news that China would be relaxing some Covid-19 restrictions. As funds flowed in from overseas, the pair returned to TWD32.0. However, overseas investors continued to sell the Taiwan dollar, so the pair edged higher and it temporarily rose to TWD32.345 on October 25 amid RMB bearishness. The US then released some worse-than-expected economic indicators, while the Bank of Canada implemented a smaller-than-expected rate hike. The greenback weakened across the board on expectations that the FRB would slow the pace of rate hikes, with the USD/TWD pair also returning to around TWD32.

2. Outlook for This Month

The USD/TWD pair is expected to strengthen in November.

Overseas investors continued to sell Taiwanese stocks and the Taiwan dollar in October. Overseas investors had sold the Taiwan dollar on emergency risk-evasive moves after the Ukraine situation deteriorated in March, but the recent fall in Taiwanese stock markets was because stocks were sold on concerns about an economic slowdown, with the Taiwan dollar also sold in tandem. Since August, Taiwanese stocks have also fallen in lockstep with US stocks. The reason Taiwanese stocks have been sold is not because investors are focusing on any Taiwan-specific

geopolitical risk (however, Taiwanese stocks have not always followed US stocks, such as during the period when Chinese stocks moved bearishly late October).

The currency pair looks set to move firmly in November too. In September, the standalone export amount was down on the same period last year, thus bringing a halt to over two straight years of continual growth. Exports to China and Hong Kong fell sharply, with the Chinese economic slowdown weighing heavily. The slowdown is started to manifest in macro-indicators too, with the industrial production data contracting on the previous year, for example. With September export orders also down y-o-y, the future is looking uncertain. Amid reports that a large semiconductor firm was also encouraging employees to take leave, some observers are saying the situation is ripe for some production adjustment. Taiwanese stocks look set to move bearishly in November on concerns about an economic slowdown, with the Taiwan dollar also likely to remain on a downward trajectory.

Hong Kong Dollar – November 2022

Expected Ranges **Against the US\$: HK\$ 7.8350–7.8500**
Against the yen: JPY 17.90–19.30

1. Review of the Previous Month

Hong Kong dollar spot exchange market in October

With the solid US labour data and jobs report sealing a case for 75bps hike, the increasing carry return of long USD/HKD drove the HKD spot to its weak-side convertibility undertaking of 7.85 in October. The HKMA intervened in the FX market to defend the USD-HKD peg more frequently, and the aggregate balance fell to near HKD 100bn. The capital outflow amid heavy Chinese equities sell-off after the 20th Party Congress also added depreciation pressure on the HKD. So far this year, Hang Seng Index plummeted by more than 30%, and Hang Seng Tech Index slumped to its record low. The IPO activities in HK market remained subdued. For HK economy, the unemployment rate extended its decline to below 4% while CPI inflation jumped sharply to its 7-year high of 4.4%YoY due to the low base effect resulted from the public housing rental waiver. The daily infected cases in HK were hovering at around 5,000 and the HK government refrained from loosening border controls for inbound travelers further.

Hong Kong dollar interest rate market in October

HKD HIBOR curve climbed further even after the quarter-end spikes. 1-month and 3-month HKD HIBOR jumped to near 3.1% and 4.5%, respectively. Interestingly, 3-month HKD HIBOR – USD LIBOR spread turned positive for the first time in January. That says, the HKD liquidity tightening following HKMA's FX intervention pushed HKD rates higher notably. In the medium term, 3Y HKD IRS climbed further towards 5%. The negative HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) rose to near -10bps from -90bps in September-end.

2. Outlook for This Month

Hong Kong dollar spot exchange market in November

The Fed is set to raise its policy rate by 75bps in November and the carry trade flow will likely leave the HKD spot at near 7.85 level. Yet, the Fed signaled that they might start the discussion on a slowing rate hike pace in December and the narrowing HKD-USD rate spread pointed to HKMA's FX intervention in smaller size. Meanwhile, the bearish RMB sentiment and foreign investors' poor appetite to keep China exposure after the 20th Party Congress should fuel capital outflow pressure from HK markets and dent the HKD outlook. We expect HKD spot to stay at around 7.85 level for a while before Fed's pivot.

Hong Kong dollar interest rate market in November

The 3-month HKD HIBOR will continue to track on Fed fund rate as tighter HKD liquidity condition

prompted HK banks to raise interest rates at a quickening pace. The narrowing HKD-USD rate spread will reduce carry trade flow and the HKMA's FX intervention size will likely diminish. Considering the narrowing gap between HK prime rate and 1-month HKD HIBOR, we expect HK banks to raise the prime rate at a normal pace of 25bps following Fed's likely 75bps hike in November. We do not reckon that the shrinkage of aggregate balance to below HKD 100bn will trigger drastic HKD rate hikes as HK banks have been lifting interbank rates pre-emptively earlier this year. Meanwhile, the Fed's pivot may be around the corner and the upside for HKD IRS curve should prove to be limited.

Chinese Yuan – November 2022

Expected Ranges **Against the US\$: CNY 7.0000–7.4000**
Against the yen: JPY 19.50–21.40

1. Review of the Previous Month

In October, the U.S. dollar/Chinese yuan exchange rate remained stable.

After the National Day holidays, the U.S. dollar/Chinese yuan onshore exchange market opened trading at the CNY 7.10 level. Before said holidays, the exchange rate was adjusted to strengthen the Chinese yuan before market closing. However, during the holidays, the number of Covid-19 cases increased, and some regions strengthened their preventive measures. Under such circumstances, the Chinese yuan weakened, and the U.S. dollar/Chinese yuan exchange rate reached the CNY 7.19 level on October 11. Thereafter, on October 13, New York time, the September Consumer Price Index (CPI) of the U.S. exceeded the estimated level, strengthening the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate rose to once reach the CNY 7.22 level. Then, on October 14, the following day, the U.S. dollar/Chinese yuan exchange market opened trading with a stronger Chinese yuan than the previous day, but the U.S. dollar/Chinese yuan exchange rate remained stable.

On October 16, the National Congress of the Chinese Communist Party was held, but there was no particularly new announcement. Therefore, there was little impact on the exchange market on October 17 after the weekend. On the other hand, the Federal Reserve Board (FRB) did not change its hawkish attitude, which strengthened upward pressure on interest rates in the U.S. Under such circumstances, the U.S. dollar remained strong. There were some moments at which market participants bought the Chinese yuan, following positive news related to the Covid-19 pandemic. However, the U.S. dollar remained dominant in the foreign exchange market, and the U.S. dollar/Chinese yuan exchange rate continued rising.

On October 24, the U.S. dollar/Chinese yuan exchange market opened at the mid-CNY 7.24 level. The depreciation of the Chinese yuan accelerated thereafter, following the fall of Chinese stock prices in the Hong Kong and U.S. markets. During the day, the U.S. dollar/Chinese yuan exchange rate was almost at the upper end of the fluctuation band. On October 25, the U.S. dollar/Chinese yuan exchange rate reached the CNY 7.30 mark. However, on October 26, market participants sold the U.S. dollar, as interest rates in the U.S. fell, leading the U.S. dollar/Chinese yuan exchange rate to fall sharply to once reach CNY 7.17. On October 27, the U.S. dollar/Chinese yuan exchange rate rose again, offsetting about half of the fall observed on the previous day. However, toward October 31, the end of the month, the U.S. dollar/Chinese yuan exchange rate returned to approach the CNY 7.25 level, retrieving stability.

2. Outlook for This Month

In November, the U.S. dollar/Chinese yuan exchange rate is forecast to remain stable, although it is not likely to rise significantly.

In terms of fundamentals, it is certain that the difference in monetary policy between the U.S. and China is one

of the factors that keep the U.S. dollar/Chinese yuan exchange rate from falling. After the National Congress of the Chinese Communist Party, there were a series of remarks and statements related to monetary and fiscal measures. However, these were generally all based on previous measures, and there is no significant change in the “moderate” and “targeted” policy.

However, there is the economic impact of anti-Covid measures that are much stricter than in other countries. Furthermore, indices related to real estate investment turned out to be weak, showing that the real estate sector, which accounts for nearly 30% of the Chinese GDP, is slowing down the Chinese economy. Even though there are various incentive measures for real estate purchase, they do not seem to have created so much appetite for purchase and investment based on what has been said locally. Also, some market participants expect a turning point for interest rate hikes in the U.S. to be approaching. However, from a short-term perspective, the difference in monetary policy between the U.S. and China is likely to continue keeping the U.S. dollar/Chinese yuan exchange rate from falling, to some extent.

On the contrary, the U.S. dollar/Chinese yuan exchange rate seems to have reached the upper end of fluctuation. When the Chinese yuan depreciated sharply in September, the People's Bank of China (PBOC) central parity rate, which is set out every business day (in the onshore market, the fluctuation of the U.S. dollar/Chinese yuan exchange rate is limited to 2% on both ends), was following the depreciation of the Chinese yuan, although there as a gap between the PBOC central parity rate and the market rate. However, in October after the National Day holidays, the PBOC central parity rate was set flat even though the Chinese yuan continued depreciating. As a result, on October 22, the U.S. dollar/Chinese yuan exchange rate reached +2%, the upper end of the fluctuation band, and this inevitably stopped the depreciation of the Chinese yuan. A similar trend was observed at the time of the trade frictions between the U.S. and China in 2019, after which the U.S. dollar/Chinese yuan exchange rate started strengthening.

In the times ahead, the U.S. dollar/Chinese yuan exchange rate is forecast to continue fluctuating while following the PBOC central parity rate (and the upper end of the fluctuation band based on the central parity rate).

Singapore Dollar – November 2022

Expected Ranges **Against the US\$: SG\$ 1.3710–1.4480**
Against the yen: JPY 100.14–110.80

1. Review of the Previous Month

In October 2022, the Singapore dollar continued appreciating against the U.S. dollar.

The Singapore dollar started to appreciate against the U.S. dollar at the beginning of the month. The Singapore dollar was strengthened by the media report that the People's Bank of China (PBOC) had instructed the preparation for interventions in the Chinese yuan exchange market. Thereafter, interest rates fell globally, following the partial cancellation of an income tax cut in the U.K., as well as with a fall of the *September 2022 Manufacturing ISM Report On Business* in the U.S. The Singapore dollar continued appreciating slowly until the release of the employment statistics of the U.S. As a consequence, the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.42 level from the mid-SGD 1.43 level observed at the beginning of the month.

However, on October 10, the September employment statistics of the U.S. turned out to be strong, while market sentiment had been deteriorating due to hawkish remarks by the Federal Reserve Board (FRB) officials made in the previous week. As a consequence, interest rates rose in the U.S., leading stock prices to fall and the U.S. dollar to appreciate. Under such circumstances, the Singapore dollar started depreciating. With growing concerns over the zero-Covid policy of China, which could last for a long period, the U.S. dollar/Singapore dollar exchange rate rose to reach the lower-SGD 1.44 level toward October 14.

On October 14, the Monetary Authority of Singapore (MAS) revised its monetary policy at its regular meeting and announced a decision to raise the middle point of the policy fluctuation band in order to lead the Singapore dollar to appreciate. The MAS also announced a decision to maintain the existing slope and width of the policy fluctuation band. In response to this announcement, the Singapore dollar started to appreciate, and the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.42 level. However, the U.S. dollar/Singapore dollar exchange rate did not move in any direction thereafter. In reacting positively to the U.K. government cancelling the majority of its tax cut measures, risk-averse sentiment was mitigated. However, the Chinese yuan remained weak, following which the Singapore dollar weakened as well. Thus, there were mixed factors in the market, and the U.S. dollar/Singapore dollar exchange rate thus continued fluctuating within a narrow range just before reaching the SGD 1.43 level.

Thereafter, the Singapore dollar strengthened again toward the end of the month. The Singapore dollar continued appreciating as Jeremy Hunt maintained the role of Chancellor of the Exchequer, and interest rate hikes in the U.S. started to slow down. As a result, the U.S. dollar/Singapore dollar exchange rate once fell to the lower-SGD 1.40 level. Thereafter, the exchange rate rose slightly. As of this writing on October 31 in the morning, the U.S. dollar/Singapore dollar exchange rate has been fluctuating at the lower-SGD 1.41 level.

2. Outlook for This Month

In November 2022, the Singapore dollar is forecast to weaken against the U.S. dollar.

Thus far, the MAS has announced measures of monetary tightening for the fifth consecutive time, including an emergency meeting since October 2021. The MAS emphasized that it was an appropriate decision to take measures of monetary tightening, especially because inflation pressure is strengthening. Some market participants initially expected that the MAS would not only raise the middle point but also adjust the slope of the policy fluctuation band (to lead the Singapore dollar to appreciate). However, the MAS did not adjust the slope of the fluctuation band at the most-recent meeting. Furthermore, the preliminary figure of the third-quarter GDP was also announced, and the result turned out to be strong, at +4.4% year-on-year and +1.5%, compared to the second-quarter period. Regarding this, the MAS commented that the figures were high, thanks to growth in domestic and tourism-related sectors, turning out to be more significant than expected as a result of the relaxation of Covid-related restrictions. However, the MAS revised its annual GDP growth outlook for 2022 downward by 3–4%, based on expected negative impact of the high inflation rates seen worldwide as well as due to the measures of monetary tightening taken in many countries. In terms of the outlook for 2023, the MAS showed a conscious view that its pace would be below the trends, adding that the inflation rate would be even stronger globally toward next year. The MAS revised upward the core inflation rate outlook for 2022 to approximately 4% on average, while expecting the core inflation rate for 2023 to fluctuate at around 3.5–4.5%.

The next MAS meeting is scheduled for April 2023. However, it is possible for the MAS to hold an emergency meeting to take further measures of monetary tightening before the scheduled meeting, as the inflation rate is certainly on a rise. It is also necessary to note that the depreciation of the Singapore dollar stopped, and the trend was inversed after the MAS meeting held in October. However, it is more likely that the appreciation of the Singapore dollar was not caused by the hawkish attitude of the MAS seen at the meeting but caused mainly by the depreciation of the U.S. dollar. As long as the FRB maintains a hawkish attitude, the general tendency remains the same in which Asian currencies are likely to weaken. For this reason, the Singapore dollar is forecast to remain weak for the foreseeable future and will not rally until spring next year.

Thai Baht – November 2022

Expected Ranges **Against the US\$: THB 37.20–38.30**
Against the yen: JPY 3.80–3.93

1. Review of the Previous Month

In October, the U.S. dollar/Thai baht exchange rate continued fluctuating both ways, following interest rate hike outlooks in the U.S. At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at the upper-THB 37 level and quickly reached the THB 38 level. However, on October 4, the central bank of Australia decided to raise its policy interest rate slightly, and this was not anticipated. In reaction, many market participants expected the policy interest rate hikes in the U.S. to slow down, as the economic indices of the U.S. had also turned out to be weak, on the previous day. As a result, interest rates in the U.S. fell, following which the U.S. dollar/Thai baht exchange rate fell as well. On October 5, the September Consumer Price Index (CPI) of Thailand was announced, and the outcome was a rise of 6.41% year-on-year, falling below 7% for the first time in five months. However, this outcome was almost at the same level as the market estimate, and thus impact was minimal in the U.S. dollar/Thai baht exchange market. However, the U.S. dollar/Chinese yuan exchange rate fell during the consecutive holidays in China, leading the U.S. dollar/Thai baht exchange rate to fall as well to temporarily reach the lower-THB 37 level. Nevertheless, on October 7, the September employment statistics of the U.S. were released with strong figures, which led market participants to expect interest rate hikes in the U.S. again based on the hawkish attitude of the Federal Reserve Board (FRB). Under such circumstances, the U.S. dollar/Thai baht exchange rate returned to the lower-THB 38 level.

In the middle of the month, the U.S. dollar/Thai baht exchange rate fell below the THB 38 level before national holidays in Thailand on October 13 and 14. However, on October 13, the September CPI of the U.S. was announced, and the outcome turned out to be strong. In reaction, the U.S. dollar/Thai baht exchange rate reached the THB 38 level again. Thereafter, the central bank of Thailand released a statement for analysts, emphasizing that gradual interest rate hikes would be appropriate in the times ahead. Market participants thus confirmed the unchanged attitude of the central bank of Thailand, while Thai government officials made remarks that could be understood as denoting tolerance for the depreciation of the Thai baht. As a consequence, the U.S. dollar/Thai baht exchange rate remained stable, fluctuating within a narrow range between THB 38 and the lower-THB 38 level. On October 20, the U.S. dollar/Thai baht exchange rate renewed its all-time high for the first time in 16 years.

At the end of the month, interest rates fell in the U.S., as some media outlets expected policy interest rate hikes in the U.S. to slow down, while some FRB members also started to make dovish remarks. Under such circumstances, the U.S. dollar/Thai baht exchange rate fell as well. On October 24, a national holiday in Thailand, members for the Standing Committee of the Political Bureau were announced, fueling cautious feeling in the market, as they were all those close to Xi Jinping—the general secretary of the Chinese Communist Party in China. As a result, Chinese stock prices, Hong Kong stock prices, and the Chinese yuan all depreciated. Following this trend, the Thai baht also weakened. The U.S. dollar/Thai baht exchange rate thus started to rise for a short moment. However, thereafter, U.S. economic indices turned out to be weak, leading interest rates to fall in the U.S. As a result, the U.S. dollar weakened. Furthermore, the September trade balance of Thailand was announced on October 26, revealing a decrease in the

trade deficit. These factors encouraged market participants to buy the Thai baht, leading the U.S. dollar/Thai baht exchange rate to fall and reach the upper-THB 37 level. Onshore trading closed on October 27 at this level.

2. Outlook for This Month

In November, the U.S. dollar/Thai baht exchange rate is forecast to fluctuate according to external factors outside Thailand. In October, there were many situations in which central banks gave some signs of change in their monetary policy, such as the central bank of Australia, which had unexpectedly raised its policy interest rate slightly on October 4, as well as the central bank of Canada and the European Central Bank (ECB). The ECB shared its view that quantitative easing had been lifted significantly after two consecutive policy interest rate hikes of 0.75%, which was seen by some market participants as a sign to be slowing down monetary tightening in the times ahead. Similarly, the central bank of Australia and the central bank of Canada seem to have made such decisions, as they were aware that their respective policy interest rates were approaching the terminal rate (the ultimate target rate after a series of policy interest rate hikes), while also being cautious about the economic impact of active policy interest rate hikes. Such actions taken by major central banks are currently impacting the future interest rate outlook of the U.S., and market participants are carefully observing actions by the FRB.

On the other hand, the central bank of Thailand has not changed its attitude regarding monetary policy since August in which it started raising the policy interest rate. Even though the central bank is ready to react when the Thai baht exchange market becomes excessively volatile, it does not see necessity to follow other major central banks, including of the U.S., with their active policy interest rate hikes. The central bank of Thailand thus emphasizes that it will raise the policy interest rate only in a gradual manner, and this is confirmed in the statement of the central bank as well as in remarks by central bank officials. Also, among ASEAN countries, the economic recovery of Thailand has been slow. However, the number of tourists coming to Thailand between the beginning of the year to September reached approximately 5.7 million, and the total annual number of tourists is expected to be approximately 10.3 million, demonstrating recovery in the tourism industry—faster than expected. Furthermore, the September trade balance revealed that the trade deficit had been significantly reduced, thanks to growth in exports. Under such circumstances, it is understandable that the central bank of Thailand does not want to slow down the economy. The attitude of the central bank is thus unlikely to change in the times ahead.

For the above reasons, the major factors for the U.S. dollar/Thai baht exchange market are likely to come from abroad. If market participants expect a change in monetary policy in major countries including the U.S., the U.S. dollar/Thai baht exchange rate could fall, which market participants should carefully observe.

Malaysian Ringgit – November 2022

Expected Ranges

Against the US\$: MYR 4.68–4.78

Against the yen: JPY 30.58–31.55

1. Review of the Previous Month

In October, the Malaysian ringgit remained weak. Even though the appreciation of the U.S. dollar was slowing down, the Malaysian ringgit weakened due to growing domestic political risks, such as the dissolution of country's parliament only three days after the announcement of the government budget plan on October 7.

At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange rate did not move in any direction thereafter. The media reported that Prime Minister Liz Truss of the U.K. had withdrawn the planned announcement of a tax reduction plan, while market participants were selling the U.S. dollar, having seen the weak results of the *September 2022 Manufacturing ISM Report On Business* of the U.S. Under such circumstances, there were already rumors about a snap general election at the ordinary session of the Parliament, which had started on October 3. Thus, there were factors that led to U.S. dollar-selling and Malaysian ringgit-selling, and the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating at around the MYR 4.65 level without moving in any direction. Thereafter, on Friday, October 7, the government budget plan for FY2023 was released. However, soon after, Prime Minister Ismail Sabri Yaakob announced the dissolution of the country's parliament, heightening political risks.

In the middle of the month, opposition parties started to discreetly fight for parliamentary seats in response to the dissolution of country's parliament. Under such circumstances, market participants sold the Malaysian ringgit due to concerns over the unstable domestic political situation. Furthermore, the inflation index in the U.S. led the U.S. dollar to appreciate and the Malaysian ringgit to depreciate. As a result, the Malaysian ringgit exchange rate renewed its 24-year all-time low against the U.S. dollar. Also, in terms of September price indices in the U.S., the Producer Price Index (PPI) was announced on October 12, and the Consumer Price Index (CPI) was announced on October 13. Both indices turned out to exceed the market estimate, leading the U.S. dollar/Malaysian ringgit exchange rate to exceed the MYR 4.70 mark.

Toward the end of the month, the U.S. government bond yield rose to its highest level since the financial crisis in 2008, and the Malaysian ringgit continued renewing its lowest rate against the U.S. dollar for the eighth consecutive week. Meanwhile, over in China, concerns were growing over an economic slowdown due to the country's zero-Covid policy. Under such circumstances, on October 17, there was a last-minute decision to postpone the announcement of the GDP, originally scheduled for October 18. As a result, risk-averse sentiment grew in the market, and the Chinese yuan depreciated further. Then, on October 19, the September trade statistics turned out to be weaker than the market estimate, and this fueled concern that the slowdown of the Chinese economy could affect the Malaysian economy. The Malaysian ringgit thus depreciated further. Then, the Election Commission of Malaysia announced that the 15th general election would be held on November 19. The date was within the period anticipated for the election. Then, on October 21, the September CPI was announced, and the result was +4.5%, below the market estimate, confirming that price inflation, which had previously been significant, started to slow down this year. This was seen in the market as a factor for the central bank not to significantly raise its policy interest rate at a monetary policy meeting scheduled for November 3.

2. Outlook for This Month

In November, the Malaysian ringgit is forecast to remain weak. As a domestic factor, the central bank of Malaysia is scheduled to announce its policy interest rate on November 3. The latest CPI for September was +4.5% year-on-year, revealing a slowdown in inflation. Even though the core inflation index confirmed inflation, as price increases had shifted to service prices such as hotels and restaurants, this was not seen as a surprise in the market. Based on the latest CPI data, the central bank is expected to raise its policy interest rate by 25 basis points at a monetary policy meeting on November 3. In October, the policy interest rate was raised significantly by the respective central banks in Vietnam and Indonesia. However, the central bank of Malaysia sees that the current inflation level is still under appropriate control. Thus, a large-scale interest rate hike of 50 basis points or more is not expected, as the priority is to support the domestic economy.

It is also worth noting that the country's parliament was dissolved on October 10 and that the 15th general election was scheduled for November 19. At the state parliamentary election, which is considered to be a preliminary session before the general election, the ruling coalition won an overwhelming victory. Thus, if it goes as is expected, the current ruling party, Barisan Nasional, led by the United Malays National Organisation (UMNO), is likely to win. For the general election, the voting age will be lowered from 21 to 18. Votes from the younger generation could change the result of the election, so we should remain attentive regarding the election outcome. If the Alliance of Hope party, led by Anwar bin Ibrahim, currently an opposition alliance, manages to surprise the market by winning the election, market participants could sell the Malaysian ringgit even further with growing concern over political instability.

In terms of overseas factors, the key event is a Federal Open Market Committee (FOMC) meeting in the U.S. scheduled for November 3. In the market, the majority expects a policy interest rate hike of 75 basis points. On the other hand, on October 26, the central bank of Canada unexpectedly decided to slow down its interest rate hikes. Having seen the decision by the central bank of Canada, market participants suddenly started speculating about the end of interest rate hikes. Because the U.S. dollar index has recently been weak, market participants could expect U.S. dollar interest rates to peak out soon, which would be a supporting factor for the Malaysian ringgit. It is also important to observe the Chinese yuan exchange market. Some expected the restriction measures as per the zero-Covid policy to be relaxed after the National Congress of the Chinese Communist Party. However, against such expectations, restriction measures are being strengthened. Pessimistic views about the Chinese economy could grow further, leading the Chinese yuan to depreciate, which would keep the Malaysian ringgit from appreciating as well.

Indonesian Rupiah – November 2022

Expected Ranges

Against the US\$: IDR 15,500–15,700

Against the yen: JPY 0.93–0.98 (IDR100)

1. Review of the Previous Month

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

On October 3, the U.S. dollar/Indonesian rupiah exchange market opened trading at the mid-IDR 15,200 level. While the overall Asian emerging currencies weakened, the September Consumer Price Index (CPI) of Indonesia recorded an increase of 5.95% year-on-year. Even though this figure was below 6%, which was the estimate, it was above 4.96%, which was the previous month's result. The U.S. dollar/Indonesian rupiah exchange rate rose and once reached the IDR 15,300 level. However, due to capital inflow related to government bond auctions as well as the fall of interest rates in the U.S., the Indonesian rupiah rallied against the U.S. dollar. The overall Asian currencies strengthened thereafter. Following this trend, the Indonesian rupiah continued appreciating, and the U.S. dollar/Indonesian rupiah exchange rate once reached the mid-IDR 15,100 level. However, on October 7, Federal Reserve Board (FRB) officials made several hawkish remarks, which led interest rates in the U.S. to rally. In reaction, the Indonesian rupiah depreciated, and the U.S. dollar/Indonesian rupiah exchange rate returned to the upper-IDR 15,200 level. Then, on October 10 in the following week, the U.S. dollar/Indonesian rupiah exchange market opened trading at around the IDR 15,250 level. Having seen the September employment statistics of the U.S. that had been released in the previous week, market participants were more actively buying the U.S. dollar. As a result, the U.S. dollar/Indonesian rupiah exchange rate rose to the lower-IDR 15,300 level. On October 11, the following day and thereafter, Asian currencies weakened against the U.S. dollar. Following the trend, the Indonesian rupiah also depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate exceeded the lower-IDR 15,300 level—the highest level observed in the previous week. The exchange rate continued rising thereafter and reached the upper-IDR 15,300 level. On October 13, local time, the September CPI of the U.S. turned out to be above the expected level. In reaction, interest rates in the U.S. started to rise, and the U.S. dollar appreciated. The U.S. dollar/Indonesian rupiah exchange rate also started rising on October 14 after market opening in Asia. The exchange rate continued rising and reached the lower-IDR 15,400 level. In the following week, an expected policy interest rate hike in the U.S. was reflected even further in the market, while concerns were growing over a worldwide economic downturn as a result of rapid interest rate hikes. As a consequence, market participants sold the Indonesian rupiah, weakening the currency. On the same day, the September trade balance of Indonesia was announced, revealing a surplus of USD 4.99 billion, exceeding the estimate. However, the impact on the market was minimal. On October 20, the central bank of Indonesia held a meeting and decided to raise the policy interest rate by 0.50%. In reaction, the Indonesian rupiah temporarily appreciated against the U.S. dollar. However, this trend was only a temporary one, and the exchange rate returned to the original level thereafter. On October 21, market participants continued buying the U.S. dollar, as the FRB maintained its hawkish attitude in the U.S. As a result, the U.S. dollar/Indonesian rupiah exchange rate also temporarily reached the IDR 15,600 level. Then, on October 24, the following week, market participants were concerned that controls by the Chinese government would become stricter, having seen the structure of the new Communist Party leadership. Chinese yuan-selling thus dominated the market.

Following this trend, the overall Asian currencies weakened, including the Indonesian rupiah, which depreciated against the U.S. dollar. On October 25, market participants sold the Indonesian rupiah against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 15,600 level. However, U.S. economic indices turned out to be weak thereafter, leading market participants to expect a slowdown of interest rate hikes in the U.S., and U.S. dollar was sold. The U.S. dollar/Indonesian rupiah exchange rate also fell to the mid-IDR 15,500 level, and then trading closed.

2. Outlook for This Month

In November, the Indonesian rupiah is forecast to depreciate against the U.S. dollar.

The September CPI of Indonesia turned out to be 5.95%, which is above the 2.0–4.0% level, which is the annual target rate set out by the central bank of Indonesia. On October 20, the central bank of Indonesia decided to raise its seven-day reverse repo rate (major policy interest rate of Indonesia) by 0.50%, which was the third consecutive interest rate hike after the hikes in August and September.

Governor of the central bank of Indonesia Perry Warjiyo made a comment that the domestic economy had been strong. Furthermore, the September trade balance of Indonesia revealed a growth in trade surplus. Given this situation, the current situation of Indonesia is generally good, making it difficult for the Indonesian rupiah to be sold excessively. On the other hand, the Indonesian rupiah depreciated against the U.S. dollar by approximately 2.1% in October. This seems to be mainly a result of the appreciation of the U.S. dollar as well as other factors in surrounding countries rather than domestic factors in Indonesia that encouraged market participants to sell the Indonesian rupiah.

Market participants have been buying the U.S. dollar based on the September Consumer Price Index (CPI) of the U.S. that was announced on October 13, as well as based on hawkish remarks made by officials from the U.S. monetary authorities. Under such circumstances, the U.S. dollar/Indonesian rupiah exchange rate has been rising. Thus, the U.S. dollar is expected to remain strong until the market starts to reflect a peaking of inflation and a slowdown of interest rate hikes in the U.S.

FRB Chair Jerome Powell also maintains the attitude to make effort to control inflation in the U.S. Thus, until multiple indices demonstrate a slowdown in inflation in the U.S., which would take some more time, the FRB is likely to remain hawkish. In other words, interest rates in the U.S. are likely to continue rising, and the U.S. dollar is likely to continue appreciating. Therefore, the Indonesian rupiah is expected to depreciate as a result of the appreciation of the U.S. dollar. However, it is also important to point out that the Indonesian monetary authorities are likely to intervene in the market when the U.S. dollar/Indonesian rupiah exchange rate approaches the most-recent high.

Philippine Peso – November 2022

Expected Ranges

Against the US\$: PHP 57.00–61.00

Against the yen: PHP 0.385–0.42

1. Review of the Previous Month

As officials from U.S. monetary authorities have demonstrated increasingly hawkish attitudes, the U.S. dollar was on a rise based on expectations for active monetary tightening in the U.S. On the other hand, the monetary authorities of the Philippines strengthened measures to protect the Philippine peso from depreciation. As a result, the U.S. dollar/Philippine peso exchange rate did not fall below PHP 59.000—the all-time low. The U.S. dollar/Philippine peso exchange rate thus continued fluctuating within a narrow range at around its all-time high, showing relative strength in Asia, while other Asian currencies were weakening further against the U.S. dollar.

At the end of September, the Philippine peso renewed its lowest rate against the U.S. dollar, reaching the PHP 59.000 level. In order to control violent fluctuation in the Philippine peso exchange market, the central bank of the Philippines strengthened reporting guidelines related to foreign exchange transactions while more vigorously intervening in the market. In October, the overall Asian currencies weakened due to concerns over a slowdown of the global economy after policy interest rate hikes announced by various central banks. Furthermore, risk-averse sentiment was growing over possible capital outflow from the Philippine stock market, weakening the Philippines peso. However, thanks to the aforementioned strengthened measures by the central bank, the Philippine peso remained steady at around the PHP 59.000 level, which is a psychological turning point, and the U.S. dollar/Philippine peso exchange rate did not rise further.

The September employment statistics of the U.S. turned out to be steady, and the September Consumer Price Index (CPI) of the U.S. recorded higher growth than expected. As a result, the U.S. dollar remained strong. In terms of the Philippine economy, the September CPI turned out to be 6.9% year-on-year, recording growth from the 6.3% year-on-year observed in the previous month. Furthermore, August foreign currency reserves turned out to be USD 95 billion, which is lower than the previous month's figure, while the August trade balance revealed a deficit of USD 6 billion with an increase from the previous month, renewing the all-time high. There were many factors that led the Philippine peso to depreciate. On the other hand, the central bank of the Philippines strengthened measures to control the depreciation of the Philippine peso by more vigorously intervening in the foreign exchange market and eliminating speculative transactions. Furthermore, the central bank indicated a possible policy interest rate hike of 100 basis points or more by the end of the year, during which two monetary policy meetings are scheduled. Moreover, the secretary of finance of the Philippines showed his firm determination to keep the Philippine peso from depreciating against the U.S. dollar further from the PHP 60.000 level by intervening in the foreign exchange market, as well as by raising the policy interest rate. Thus, the Philippine peso continued trading against the U.S. dollar at around its all-time low, without falling further. Thus, the U.S. dollar/Philippine peso exchange rate did not move in any direction, confirming the robustness of the Philippine peso. Even though the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range in October, the Philippine peso appreciated to its highest level in approximately one month toward the end of the month, following the trend in which the overall Asian currencies rallied with expectations in the market for a slowdown of interest rate hikes in the U.S.

2. Outlook for This Month

Because the U.S. monetary authorities are strengthening their hawkish attitude, the U.S. dollar is likely to lead the market. While there is no change in the fundamentals and as there are few factors to change the trend in the market, the Philippine peso is forecast to remain weak against the U.S. dollar.

The CPI of the U.S. reached its highest level in 40 years, and the market has been reflecting policy interest rate hikes of 75 basis points each expected in November and December at the Federal Open Market Committee (FOMC) meeting. Some even expected the policy interest rate to be raised to 4.5–5%. Many officials of the U.S. monetary authorities made a remark to suggest that they were ready to raise the policy interest rate more than previously expected. Therefore, it is likely for market participants to buy the U.S. dollar against a wide range of other currencies. Furthermore, the current account deficit of the Philippines has been increasing as a result of an increase in imports after economic activities resumed in the Philippines, as well as due to the rise of international commodities prices, which is another factor to weaken the Philippine peso. Moreover, the depreciation of Asian currencies could accelerate further in the times ahead due to deteriorating market sentiment and large-volume sales of risk assets based on concerns over a global economic downturn.

However, on the other hand, the central bank of the Philippines has been strengthening measures to keep the Philippine peso from depreciating further in a way that would lead to stronger inflationary pressure, by more vigorously intervening in the foreign exchange market as well as by eliminating speculative transactions. Furthermore, the central bank of the Philippines has also indicated that it would raise its policy interest rate significantly, following the interest rate hikes in the U.S. The secretary of finance of the Philippines also announced his determination to protect the Philippine peso. For these reasons, it is likely for the Philippine peso to be supported when the Philippine peso exchange rate approaches the all-time low against the U.S. dollar. It is also worth noting that there is a positive seasonal factor, as overseas Filipino workers remittances tend to increase toward the end of the year, and this is likely to support the Philippine peso as well. Thus, even if the U.S. dollar/Philippine peso exchange rate exceeds the current support line, the depreciation of the Philippine peso is expected to be a moderate one.

Indian Rupee – November 2022

Expected Ranges

Against the US\$: INR 80.00–85.50

Against the yen: JPY 1.74–1.86

1. Review of the Previous Month

In October, the U.S. dollar/Indian rupee exchange rate reached its all-time high.

On September 30, the media reported that the Indian government had instructed three state-run petroleum oil companies not to buy U.S. dollars for import settlement in the spot exchange market, in exchange for U.S. dollar funds supplied from overseas branches of state-run banks. In reaction, the U.S. dollar depreciated, and the Indian rupee appreciated, and the exchange rate once reached the INR 81.15 level. However, after the weekend, the U.S. dollar/Indian rupee exchange market opened monthly trading at INR 81.60. Market participants' interest was on local resource companies buying U.S. dollars before the OPEC meeting. However, the RBI (the central bank of India) also continued intervening in the foreign exchange market. The U.S. dollar/Indian rupee exchange rate reached INR 81.35 on October 4, and this turned out to be the monthly low. At the OPEC meeting, which attracted substantial attention in the market, agreeing to reduce oil production was a negative factor for the Indian rupee. On October 7, the U.S. dollar/Indian rupee exchange rate exceeded INR 81.935, which is the all-time high recorded on September 28, and rose to reach INR 82.425.

In the second week of the month, the September employment statistics of the U.S. were released with strong figures after the Indian market closed at the end of the previous week. This further fueled expectations for a policy interest rate hike. As a result, on Monday, the U.S. dollar/Indian rupee exchange rate rose sharply to INR 82.70 in the morning. However, the Indian monetary authorities intervened in the foreign exchange market thereafter by selling a large volume of U.S. dollars, which led the U.S. dollar/Indian rupee exchange rate to fall to the INR 82.30 level. Furthermore, there were rumors that a local telecommunications company was sending overseas funds to the domestic market in order to make payment to the government for the usage of 5G networks. This encouraged market participants to sell the U.S. dollar. It is also worth noting that, in the second week of the month, foreign exchange market interventions were particularly active in the forward market, leading to a sharp fall of the forward premium.

In the third week of the month, market participants remained attentive of foreign exchange market interventions. As the interventions were expected to start when the U.S. dollar/Indian rupee exchange rate reached the INR 82.40 level, the exchange rate remained at the same level without reaching the INR 82.50 level. However, on October 19, the U.S. dollar/Indian rupee exchange rate exceeded this support line and continued rising rapidly. There were also rumors that, in addition to a state-run gas company, two petroleum oil companies were buying U.S. dollars amounting to USD 1 billion. As a consequence, the U.S. dollar/Indian rupee exchange rate reached the INR 83 mark. On October 20, the following day, the U.S. dollar/Indian rupee exchange rate continued rising and reached the high at INR 83.29. However, on the same day, the RBI seems to have sold U.S. dollars amounting to USD 1 billion in the spot exchange market, and this led the exchange rate to fall again.

Toward the end of the month, there was a series of national holidays, as it was a new year according to the Hindu calendar. Under such a condition, there were few market transactions, and the U.S. dollar/Indian rupee exchange rate did not move in any direction. As of 15:30 on October 28, the U.S. dollar/Indian rupee pair was trading at INR

82.48.

The U.S. dollar/Indian rupee exchange rate renewed its all-time high for five consecutive months from May to October.

2. Outlook for This Month

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

The Federal Reserve Board (FRB) raised its policy interest rate by 0.75% for three consecutive months in June, July, and September. Combined with interest rate hikes in March and May, the current policy interest rate in the U.S. is 3.00–3.25%. Given that the U.S. had a zero-interest rate policy, these interest rate hikes just seem excessive both in terms of level and pace. However, the market has already reflected a policy interest rate hike of 0.75% to be announced again at the Federal Open Market Committee (FOMC) meeting in November, as if it were already decided. The RBI has also raised its policy interest rate by 1.9% since May this year. However, compared to the interest rate hike hikes in the U.S., those in India seem to be less significant. It can even be said that the fundamentals of India no longer have any impact on the U.S. dollar/Indian rupee exchange market, which moves in accordance with interest rate hikes in the U.S.

However, it is still necessary to mention two important factors in India. The first factor involves measures taken by the RBI. On October 28, the RBI announced its decision to hold an emergency MPC meeting on November 3. The inflation rate of India has been well above 6%—the upper end of the inflation target rate. Regarding this unsuccessful situation, the RBI sent a document to the government of India, and the central bank explained that the emergency MPC meeting was meant to provide an explanation about this. However, it is probably not a coincidence that the meeting is scheduled for November 3, a day after the release of the FOMC statement that is scheduled for November 2. Market participants thus expect the RBI to make decisions depending on the decisions taken by the FRB regarding its policy interest rate, as well as depending on the pace of the appreciation of the U.S. dollar.

The second factor involves foreign exchange market intervention through U.S. dollar-selling and Indian rupee-buying. In October, there were frequent interventions when the U.S. dollar/Indian rupee exchange rate reached the INR 82.40–82.45 level. On October 29, foreign currency reserves until the week ending October 21 turned out to be USD 524.5 billion with a further decrease. This confirmed that Indian monetary authorities have been intervening in the market by selling the U.S. dollar, as was pointed out in the previous month's article, to the effect that it was still possible for the Indian monetary authorities to intervene in the market by selling the U.S. dollar, as they had foreign currency reserves worth nine months of imports. However, it is not possible to change the trend in the market by intervening in the foreign exchange market, even if it is possible to keep the U.S. dollar from appreciating further for a short period. This can be seen in the case of Japan, where its Ministry of Finance has been intervening in the market to a high degree but without being able to stop the depreciation of the Japanese yen. Indeed, the foreign currency reserves of India amounted to USD 631.5 billion in the week of February 25, in which Russia embarked on war with Ukraine, and this means that foreign currency reserves decreased by USD 107 billion. In the same period, the U.S. dollar/Indian rupee exchange rate rose from INR 75.20 to INR 82.50, with the appreciation of the U.S. dollar and the depreciation of the Indian rupee.

The U.S. dollar/Indian rupee exchange rate is thus expected to follow the trend in the U.S. dollar exchange market. However, as long as policy interest rate hikes in the U.S. continue as expected, the U.S. dollar is likely to continue appreciating while the Indian rupee is likely to continue depreciating in November.

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

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