Mizuho Dealer's Eye

July 2022

Mizuho Bank, Ltd.

Global Markets Sales Department

Yuuka Omi, Forex Sales, Global Markets Sales Department

U.S. Dollar – July 2022

Expected Ranges **Against the yen: JPY133.00–138.00**

1. Review of the Previous Month

The dollar was bought at a faster pace and the dollar/yen pair surged to the lower-130 yen mark on June 1 on the strong results of the US May Manufacturing ISM Report on Business. The pair dipped back to the mid-129 yen level on June 2, though it then rallied to the upper-129 yen range as US long-term interest rates rose on the robust result of the US new applications for unemployment insurance data. The greenback was bought and the pair climbed to the upper-130 yen mark on June 3 on the results of the US employment data for May.

The pair continued fluctuating gently at this level on June 6. It then shot up to top 132 yen on dollar buying during overseas trading time. This trend spilled over into June 7. With the Reserve Bank of Australia (RBA) lifting rates by more than expected, the Australian dollar soared against the yen, with the dollar/yen pair also pulled up to hit 133 yen. The trend of yen selling and dollar buying continued on June 8, with the currency pair strengthening to the mid-134 yen level. It temporarily plunged to the lower-133 yen mark on June 9. However, it then bounced back to the mid-134 yen level as US long-term interest rates rose. The dollar was bought for a time on June 10 on the better-than-expected results of the US May CPI data, though it then fell as US stocks weakened on inflationary concerns, with the pair eventually trading around the mid-134 yen mark.

The pair topped 135 yen at the start of the next week on June 13. After a round of buying, the pair dropped back to the mid-133 yen range for a time after Bank of Japan (BOJ) governor Haruhiko Kuroda intervened verbally to halt the yen's slide. On June 14, the BOJ announced an increase in the amounts of its extraordinary JGB purchase operations, with the currency pair also rocketing to the mid-135 yen level as US long-term interest rates surged. The greenback was bought for a time on June 15 after the FOMC announced a +75bp rate hike, though the pair then crashed to the mid-133 yen mark after FRB chair Jerome Powell voiced caution about the size of future rate hikes during his press conference. On June 16, the currency pair was pulled up to the mid-134 yen level as the Nikkei Average climbed higher, though it then plummeted to 131.49 yen for a time as investors focused on the lackluster results of the US new applications for unemployment insurance data. The BOJ decided to continue easing at the Monetary Policy Meeting on June 17. With US interest rates also rising, the dollar/yen pair rallied temporarily to the 135 yen range.

At the start of the next week, on June 20, the pair tumbled to the mid-134 yen level during Tokyo trading time. With trading thin on the ground, though, the pair edged higher to regain the lower-135 yen mark. It then climbed to 136.71 yen during overseas trading time on June 21. The pair fell to the mid-135 yen range on selling to lock in profits on June 22, though it rallied to the lower-136 mark during US trading time. The pair fell further on June 23. The US released several bearish economic indicators during overseas trading time. With US long-term interest rates also falling, the pair temporarily dipped to the lower-134 yen level. US stocks moved firmly and the pair recovered to 135 yen for a time on June 24 as a US inflation indicator dipped below expectations.

At the start of the next week, on June 27, the pair moved firmly at 135 yen as the dollar was bought on rising US interest rates. This trend continued on June 28, with the pair rallying to the lower-136 yen level. FRB chair

Jerome Powell said he was seriously considering further rate hikes on June 29, so the pair temporarily hit 137 yen. The pair then dipped to trade at the upper-136 yen mark during Tokyo trading time on June 30.

2. Outlook for This Month

In July, the dollar will continue to be bought and the yen sold on the divergent monetary policies of the US and Japan, with the dollar/yen pair set to continue rising. However, the pair could peak out after hitting new highs.

Japan will be holding upper house elections on July 10. The yen's recent slide has hit companies and households, with the government voicing concerns about the yen's sharp depreciation on several occasions. As a result, yen selling has waned at times and the pace of yen selling may slow at the start of July too.

In the US, the FRB will also be meeting to set policy on July 27. The markets rushed to price in a 0.75% hike just before the last FOMC meeting, with the FOMC then implementing a 0.75% rate hike. University of Michigan's long-term expected inflation rate is said to be the driver behind accelerated rate hikes, so this indicator will also be attracting a lot of attention this month. However, the final figure released at the end of last month suggested the inflation situation was improving, with investors likely to discuss once more when inflation will finally peak out. The markets will not find it so easy to price in a 0.75% rate hike at this month's meeting.

There are also concerns about an economic recession in the US on rising interest rates. FRB chair Jerome Powell has said a recession could indeed be on the cards, though in his testimony to Congress last month he said concerns were not rising. President Biden has also said the US could avoid a recession, so the issue is unlikely to effect the markets much right now. However, the US has released some mixed economic indicators. If some indicator or other points to an economic slowdown, the dollar could be sold on renewed concerns about a recession.

With Japan buffeted by concerns about yen weakness and the US facing peak inflation and recessionary fears, there are several factors capable of dampening the trend of dollar buying and yen selling this month.

Dealers' Market Forecast

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

Bullish on the dollar	18 bulls	140.00 – 133.00	Bearish on the dollar	2 bears	138.25 – 131.75

* Ranges are central values

Yano	Bull	140.00 – 134.00	Some observers believe US inflation will be reined in, though there are concerns about consumption trends going forward. The yen is likely to continue trending lower for the time being, but the pair's direction could shift (from yen bearishness to yen bullishness) on deteriorating economic and political trends from next year onwards.
Ushijima	Bull	140.00 – 133.00	A lot will depend on US inflationary trends. The FRB has indicated it is prepared to tackle inflation even at the expense of the economy, but the markets have not finished pricing in a +75bp rate hike in July, so the dollar still has room to climb on rising US interest rates.
Tsutsui	Bull	145.00 – 130.00	US interest rates and forex markets are being swayed by US inflation indicators. Imputed rents have not impacted inflation, though they will probably swing higher on rising house prices and an increase in the number of people looking to rent. US interest rates fell after investors priced in 2023 rate cuts, but they will probably rise again this month, with the dollar set to strengthen.
Kato	Bull	138.00 – 132.00	There remains a sense that the dollar has been overbought. Even if Japan remains reluctant to normalize policy, the divergence between the US terminal rate and neutral suggests investors are pricing in rate cuts from 2023 onwards, so depending on the inflation outlook, there could well be some correction this month.
Yamazaki	Bull	137.50 – 133.00	The dollar/yen pair has risen on Japanese/US interest-rate differentials and the divergent monetary policies of the US and Japan, though this rise could soon peak out. If attention shifts to concerns of an economic slowdown in the US, the pair's room on the topside will be capped by recessionary concerns. However, the pair's downside will be capped by the aforementioned policy divergence.
Ito	Bear	139.00 – 131.50	With concerns of a recession growing on monetary tightening, US interest rates will only have limited room to rise further. The yen will continue to trend lower on the divergent policy stances of the US and Japan, but US inflationary expectations are currently trending lower. Overseas investors will be monitoring the BOJ's policy meeting again too, so the dollar/yen pair could face some correction.
Yamagishi	Bull	140.00 – 132.00	The dollar/yen pair will continue to move erratically on speculation about the next BOJ meeting. With the BOJ pursuing unprecedented monetary easing for a prolonged period, though, it will find it hard to shift policy given the potential impact on the fiscal burden. Furthermore, inflation is only a supply side issue in Japan, with tapering also difficult given the macroeconomic climate, so the yen looks set to continue trending lower on easing.
Omi	Bull	138.00 – 133.00	The dollar/yen pair will move in a range between 133–138 yen this month. The dollar will continue rising and the yen falling on the divergent monetary policies of the US and Japan, but the pair's topside will be held down by concerns of a US recession and peaking inflation.
Ueno	Bull	140.00 – 132.00	The economy is lagging in its recovery from easing policies and Covid-19. Funds remain unlikely to flow into Japan. With Japanese exporters also in no rush to repatriate funds on the yen's bearishness, the dollar/yen pair will continue to trend upwards.
Kai	Bull	138.00 – 134.00	Though the dollar might be sold on recessionary concerns and sliding US long-term interest rates, the yen will remain subdued. With central banks moving to hike rates, Japan is the only nation moving toward negative interest rates, so the yen will continue to be sold on rising European and US interest rates.
Onozaki	Bear	137.50 – 132.00	The dollar/yen pair is unlikely to fall sharply given the dearth of yen-buying factors, but US interest rates will stop rising for a time. The US economy faces headwinds from policy moves to restrain inflation, while the movements of risk assets are also worrying, so investors will find it hard to test the pair's topside and there could be some adjustment this month.

Harada	Bull	140.00 – 132.00	US interest rates will continue to be pushed higher by cost-push inflation in the US. With the BOJ continuing to ease, though, the dollar/yen pair will rise on the divergent monetary policies of the US and Japan. Concerns about risk aversion are smoldering on US economic headwinds, but the pair will continue to trend higher.
Oba	Bull	140.00 – 133.00	The dollar/yen pair will remain firm. Comments by FRB chair Jerome Powell at the end of June suggest the FRB will continue to hike rates to tackle inflation, even if this leads to slower economic growth. Yen bullishness will be capped when US interest rates fall. The yen will remain bearish until the BOJ stops easing.
Katoono	Bull	139.50 – 133.00	The FRB continues to hike rates sharply to tackle high inflation in the US, so Japanese/US interest-rate differentials will continue to widen. There are concerns about a recession, but the dollar will remain bullish as investors focus on a substantial +75bp rate hike.
Kobayashi	Bull	140.00 – 130.00	The US is expected to see another rate hike in July. Japan remains firmly stuck in easing mode, though, so the yen is unlikely to be bought, with the dollar/yen pair set to continue trending upwards. There could be some temporary correction to sharp yen depreciation, so caution will be needed.
Henmi	Bull	140.00 – 133.00	The FOMC is expected to hike rates again in July, though Japan remains firmly committed to easing. Japan has few weapons against yen depreciation, so investors will find it hard to buy the yen. As such, the dollar/yen pair looks set to continue trending higher.
Otani	Bull	140.00 – 133.00	Inflation remains high in the US, so the FOMC will probably implement a +75% rate hike when it meets in July. FRB chair Jerome Powell has said he prioritizes tackling inflation over the economy. As such, there is a dearth of factors pushing the dollar/yen pair lower, with the pair likely to renew highs in July.
Suzuki	Bull	139.50 – 133.50	The BOJ will not be shifting policy any time soon, so there will remain deep-rooted demand for yen selling, with the dollar/yen pair set to move firmly. The pace of US rate hikes could ease in July, but the pair's room on the downside will be capped.
Kimura	Bull	142.00 – 134.00	The FRB and other central banks in the west are moving to tighten policy, but the BOJ remains in easing mode. After facing adjustment on rate hikes, stock markets look set to bounce back, with the yen sold at a faster pace, so caution will be needed.
Okuma	Bull	139.00 – 134.00	FRB chair Jerome Powell had said the FRB will prioritize tackling inflation, even though concerns are growing about a US economic slowdown. The dollar will continue to be bought and the yen sold on the divergent monetary policies of the US and Japan, with the dollar/yen pair set to move firmly.

Yuta Kimura, Global FI Team, Global Markets Trading Department

Euro – July 2022

Expected Ranges	**Against the US$: US$1.0200–1.0700**
	Against the yen: JPY137.50–147.00

1. Review of the Previous Month

The euro/dollar pair moved bearishly in June as recessionary concerns grew after the June 9 ECB Governing Council meeting.

After opening the month at the lower-$1.07 mark on June 1, the pair plummeted to the lower-$1.06 level on the healthy results of the US May Manufacturing ISM Report on Business. The pair stopped falling on June 2. Amid a dearth of factors and growing speculation about faster ECB monetary policy normalization, the pair climbed to the upper-$1.07 mark just before the release of the US employment data for May on June 3. The greenback was bought on the results of the US employment data for May, but with the euro also being bought, the pair moved firmly at the lower-$1.07 mark.

With European markets on holiday on June 6, the pair weakened on rising US long-term interest rates. It then tumbled to the mid-$1.06 range on June 7 on the lackluster result of the German manufacturing orders figure for April. The pair continued to move with a heavy topside on June 8 after Germany released some worse-than-expected industrial production data, though it then climbed to the mid-$1.07 level when the eurozone's 1Q GDP figure was revised upward. When the ECB Governing Council met on June 9, it decided to wind down its asset purchasing program and commence rate hikes from the next meeting in July, so the pair temporarily surged to a monthly high of $1.0774. However, European stocks then fell sharply on concerns about a slowdown in Europe, so the euro was sold and the pair crashed to the lower-$1.06 mark. It then fell to around $1.05 on June 10 as concerns about inflation grew on an upswing in the US May CPI data.

The euro was sold over June 13–14 as risk aversion grew on rising US interest rates ahead of the FOMC meeting, with the pair sliding to the lower-$1.04 level. On June 15, the pair rallied to around $1.05 for a time on the statement released after the ECB Governing Council's ad hoc meeting. However, the statement was did not rouse expectations for rate hikes, with the Council saying it would apply flexibility in reinvesting PEPP redemptions, so the euro was sold, with the euro/dollar pair then hitting a monthly low of $1.0359 after the FOMC announced a 75bp rate hike. However, the greenback was sold and the pair rose to around $1.06 on June 16 on the weak results of the some US economic indicators. Investors then moved to lock in profits, though, so half the pair's gains were pared back and it moved around $1.05 on June 17.

The pair moved firmly as European stocks rallied on June 20, though it dropped back to the lower-$1.05 mark on June 21 as US interest rates rose. The pair moved bearishly as the euro weakened against the yen on June 22, though it then hit $1.0606 and strengthened to the upper-$1.05 range as stock markets rallied. On June 23, the euro was sold on a worse-than-expected European June PMI, though it then bounced back to the mid-$1.05 level toward June 24 as US interest rates moved heavily on the topside on the bearish results of some US indicators, with the pair moving with a lack of direction thereafter.

The pair was swayed by stock markets over June 27–28 before sliding to the lower-$1.05 mark on dollar-buying demand toward the end of the month. On June 29, FRB chair Jerome Powell gave a bullish outlook for the US economy at an ECB forum, so the greenback was bought and the currency pair dropped to the lower-$1.04 level. It continued moving with a heavy topside at this level on June 30.

2. Outlook for This Month

The euro/dollar pair will move skittishly with a heavy topside in July on the uncertain Ukraine situation and the looming meetings of the ECB Governing Council and the FOMC in the latter half of the month.

When the ECB released its Survey of Monetary Analysts on June 13, it revealed that analysts predicted the European economy to bottom out in 2Q before recovery sharply from 3Q onwards, with a 25bp rate hike expected in July. A glance at the movements of other central banks shows that although investors had originally expected the FOMC to implement a 50bp rate hike in June, they then moved swiftly just before the meeting to price in strong-than-expected inflation indicators and comments by FRB officials, with the FOMC subsequently implementing a 75bp rate hike. Switzerland's central bank had kept rates in negative territories, but it also surprised the markets by carrying out a 50bp rate hike. Stock markets underwent some adjustment as investors moved faster to price in rate hikes. FRB chair Jerome Powell then said the FRB might continuing discussing the scale of any rate hikes, even though he admitted a recession was a possibility, with the FRB still committed to raising rates, even if it damaged the economy to a certain extent. With central banks in the US and Europe moving to normalize policy, the ECB will probably move to lift rates in stages to control inflation in the face of stubbornly-high CPI data.

There are also growing concerns about an economic slowdown in Europe. On June 24, Europe released some bearish manufacturing and services PMIs for June. Europe was already lagging behind the US on the economic front before then. Furthermore, though inflation has risen in Europe, the area is being impacted heavily by external factors, namely the blockade of energy supply networks on the deteriorating Ukraine situation, so the ECB will find it difficult to control inflation through monetary policy. Under these circumstances, the markets are moving sensitively on indicators related to supply and demand. Based on this, it seems the pair will continue moving without a sense of direction in July with an eye on a high of $1.0774 (the high recorded around the time of the June ECB Governing Council) and a low of $1.0359 (is low from after the June FOMC meeting). However, the economy is moving sluggishly and the prolonged Ukraine situation is also having a negative economic impact. As such, even if market sentiments improve, the US will probably be the first to reap the benefits, with the euro conducive to selling against the dollar. Nonetheless, the ECB is still moving towards hiking rates, whereas Japan remains in easing mode, so expectations for European rate hikes will be quite high, comparatively speaking, with the euro set to move firmly against the yen.

Dealers' Market Forecast

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

Bullish on the euro	9 bulls	1.0800 – 1.0350	Bearish on the euro	11 bears	1.0700 – 1.0200

* Ranges are central values

Yano	Bear	1.0600 – 1.0200	The eurozone is also likely to move faster to normalize monetary policy to tackle inflation, but there are doubts about whether the economy is capable of absorbing rate hikes as much as the US has done. With the US expected to lift rates further, there will be a dearth of factors conducive to euro buying.
Ushijima	Bear	1.0800 – 1.0300	Though the ECB is likely to lift rates in July, it will do so at a slower pace than the US. The euro will also be dragged down by the ongoing Ukraine situation, with the euro/dollar pair set to continue trading in a range for now.
Tsutsui	Bear	1.0600 – 1.0100	In her speech at Sintra, ECB president Christine Lagarde said the ECB would only lift interest rates gradually as long as expected inflation did not rise. Europe is suffering from supply-side inflation (fuel, etc.), with consumption and investment in the doldrums, so rate hikes will be restrained compared to the US, with the euro/dollar pair set to move bearishly.
Kato	Bull	1.0800 – 1.0400	A lot will depend on the Ukraine situation. The euro will be bought back if Russia moves towards a ceasefire. However, the situation remains up in the air. The pair's topside will continue to be held down by technical factors too. As such, the pair will probably trade in a range, with no new attempts on its downside.
Yamazaki	Bear	1.0800 – 1.0350	The ECB will find it difficult to shift monetary policy given the potential impact on EU bond markets. However, the dollar is likely to stop rising, so the euro/dollar pair looks set to move firmly and trend upwards. Attention should be paid to the movements of government bonds.
Ito	Bear	1.0700 – 1.0200	With inflation remaining high in the eurozone, the ECB looks set to hike rates from July. However, the ECB could well shift its hawkish stance if the risk of a eurozone slowdown intensifies. Geopolitical risk could also rise as Finland and Sweden try to join NATO, so caution will be needed.
Yamagishi	Bull	1.0800 – 1.0200	The euro looks set to move firmly on expectations for ECB rate hikes. The markets have factored in a 0.25% hike in July, a 0.5% hike in September, with further raises expected to follow. Inflation has topped 8% and discontent is becoming a political issue, so the ECB will continue take measures to prevent eurozone fragmentation while guiding monetary policy with an eye on restraining inflation.
Omi	Bull	1.0800 – 1.0300	The euro will be pushed higher when the ECB commences rate hikes. However, the US is also lifting rates at a faster pace, so the euro/dollar pair's rise will be capped.
Ueno	Bull	1.0800 – 1.0350	The euro/dollar pair's downside has shown signs of firmness just before its low from January 2017 ($1.0340). With the ECB also moving towards rate hikes, it is hard to imagine the euro being sold again.
Kai	Bull	1.0700 – 1.0350	The ECB will hike rates by 25bp in July before eliminating negative interest rates in tandem with the SNB in September. ECB president Christine Lagarde has shifted sharply in a hawkish direction since May and the euro will be bought if hawkish expectations grow for a substantial ECB rate hike in July, for example.
Onozaki	Bull	1.1200 – 1.0300	The ECB will probably lift interest rates in stages from July. The Ukraine situation is still concerning, but it will become less of a market theme. Investors have already factored in FRB rate hikes, so the euro will be bought on ECB tightening.
Harada	Bear	1.0900 – 1.0350	The eurozone is also facing cost-push inflation, with the ECB shifting in a hawkish direction. However, the euro/dollar pair will continue moving heavily on the Ukraine situation and so on. With the US also set to implement strong rate hikes, the pair looks set to edge lower this month.

Oba	Bull	1.0700 – 1.0400	The euro/dollar pair looks set to move firmly in July. The daily chart shows the pair forming a double bottom around $1.04, with the euro probably sold at times on dollar bullishness. The pair will gradually bounce back as the eurozone economy recovers and the ECB moves towards normalization.
Katoono	Bull	1.0800 – 1.0300	The ECB will commence rate hikes, with the euro/dollar pair also set to move firmly on technical factors. There are some concerns about a eurozone economic slowdown, but the ECB will continue to tighten in order to tackle inflation, with this likely to feed directly into euro bullishness.
Kobayashi	Bear	1.0800 – 1.0100	The ECB is expected to normalize monetary policy against the backdrop of inflation, with the euro likely to be bought back when the ECB hikes rates. However, aggressive euro buying is unlikely given the Ukraine situation and the sluggish economy, so the euro/dollar pair looks set to move bearishly.
Henmi	Bear	1.0700 – 1.0100	The ECB has hinted it might hike rates when it meets in July and September. Despite this hawkish shift, the ECB might relax its stance on concerns about an inflation-led slowdown or the re-emergence of geopolitical risk, so caution will be needed.
Otani	Bear	1.0700 – 1.0200	With the ECB adopting a hawkish stance, European interest rates have risen sharply, though expectations for ECB rate hikes are still not as strong as anticipation over the FRB's next move. The eurozone economy is not as strong as the US economy, with the euro/dollar pair set to move with a heavy topside on stagflation concerns.
Suzuki	Bull	1.0800 – 1.0350	The ECB has also indicated it will hike rates in July and it will probably remain in hawkish mode thereafter on high inflation, with the euro likely to be bought. With the Ukraine situation also having less of an impact, the euro/dollar pair looks set to move firmly this month.
Kimura	Bear	1.0700 – 1.0200	Attention is focused on whether the eurozone economy will slow as the ECB begins normalizing policy from July. The euro/dollar pair will probably move skittishly on the results of economic indicators, with its topside likely to grow heavier.
Okuma	Bear	1.0600 – 1.0200	Though the ECB has hinted it might start lifting rates from July, it might still lag behind the FRB when it comes to the pace of monetary policy normalization. The Ukraine war is also dragging on and there are concerns that the eurozone economy might slow on monetary tightening, so the euro/dollar pair looks set to move bearishly this month.

Fumihiko Kanda, Europe Treasury Department

British Pound – July 2022

Expected Ranges **Against the US$: US$1.1800–1.2500**
Against the yen: JPY160.00–170.00

1. Review of the Previous Month

The pound weakened against the dollar last month, though it rose against the yen on yen bearishness.

After opening the month at a monthly high of $1.2616 on June 1, the GBP/USD pair's movements were generally marked by dollar bullishness on the firm results of US indicators. The pair continued moving around $1.25 over June 2–3 as the UK celebrated Jubilee Weekend, a holiday commemorating Queen Elizabeth II's 70 years on the throne. The pound was bought back on June 7 on the better-than-expected upswing in the revised figure for a UK PMI, though the pair could not regain the $1.26 mark. The greenback was bought on June 10 when the US posted some stronger-than-expected CPI data, so the pair was sold to $1.23. With the dollar remaining bullish, the pair fell to a monthly low of $1.1934 on June 14, though it rallied to $1.22 on June 15. As expected, the Bank of England (BOE) hiked its policy rate to 1.25% on June 16. The markets had already priced this in, so the pair initially reacted by falling to the mid-$1.20 level. However, the pair soon bounced back to the mid-$1.23 mark, perhaps on a sense that major events were now out of the way. The yen moved bearishly during this time as the Bank of Japan (BOJ) remained in easing mode, with the GBP/JPY pair rising to the upper-168 yen mark on June 9, though it then fell to 160 yen on pound bearishness before rallying to the 163 yen mark.

The GBP/USD pair then floated without a sense of direction around the $1.22 mark. The UK May CPI data hit a 40-year high of +9.1% year-on-year on its released on June 22. This was much as expected, though, so he pair was sold to the $1.21 range for a time before then rebounding to the $1.23 mark. With the greenback moving bearishly on June 28, the euro weakened on concerns about Russian gas supplies to Germany and Italy, etc. The pound was also pulled lower, with the currency pair dropping below $1.22. The dollar was bought on June 29, so the pair fell to around $1.21 at the month's end.

2. Outlook for This Month

The GBP/USD pair will continue to trade with downside risk in July. There are concerns about the Johnson administration, while UK/EU tensions about post-Brexit customs procedures continue to smolder away. With inflation also high and fears growing about an economic downturn, there will be a dearth of pound-buying factors this month.

UK prime minister Boris Johnson overcame a vote of no confidence in the British Parliament on June 6, but the most recent opinion poll shows support for the government sliding to around 20%. Trust has fallen on reports about parties at the PM's residence during lockdown and it seem the Tories are having difficult regaining the public's confidence. Furthermore, the UK government is trying to revise stipulations in the withdrawal deal about customs procedures in Northern Ireland and it introduced a bill to revise the agreement on June 13. Naturally, the EU is none too happy about this and it has suggested it may take legal action depending on how the UK responds to a proposal submitted by the EU on June 15. However, the pound's reaction to all this has been muted. Of course, all this chimes with the government's single-minded pursuit of Brexit, so perhaps it is to be expected. If it seems the situation will deteriorate into something like a trade war, this could weigh heavily on the pound (and euro), with this scenario looming as a potential tail risk.

The BOE Monetary Policy Committee meeting is not scheduled this month, but the FOMC will be attracting attention when it meets on July 27. The markets are already expecting a 75bp rate hike, with this factor likely to push the pair lower throughout July. The trend of dollar buying might unwind when this event is out of the way. This is the only potential factor leading to pound buying this month.

Finally, a glance at implied volatility in the options markets suggests the GBP/USD will probably fluctuate by around 2.5% this month. Pound put options (right to sell) continue to trade more heavily than call options (right to buy), which suggests many investors are focused more on downside risk.

Shiho Kawaguchi, Sydney Treasury Office, Asia & Oceania Treasury Department

Australian Dollar – July 2022

Expected Ranges **Against the US$: US$0.6800–0.7285**
Against the yen: JPY89.50–96.15

1. Review of the Previous Month

The AUD/USD pair rose to $0.7283 in the first half of June before then falling to $0.6851. In the latter half of the month, it floated in a range from the upper-$0.68 handle to the $0.70 handle.

The pair climbed to the lower-$0.72 level on June 1 on the 1Q Australian GDP data, though it was then sold back to the upper-$0.71 range on the bullish result of the US May Manufacturing ISM Report on Business. On June 2, the pair bounced back to $0.7270 as the overnight interest rate suggested the RBA would implement a +40bp rate hike when it met in June. The pair was also supported by the bearish results of the US May ADP National Employment Report and US April manufacturing orders figure. The pair weakened to around $0.72 on June 3 on the firm results of the US employment data for May.

The pair strengthened to $0.7246 on June 7 after the RBA board implemented a 50bp rate hike. The Australian dollar was supported by rising crude oil prices on June 8, but US interest rates then climbed on concerns that the FRB would adopt a more hawkish stance to tackle inflation. This saw the pair sliding to the upper-$0.71 handle. With the yen moving bearishly, the Australian dollar hit a 2022 high of 96.88 yen against its Japanese counterpart. The FRB was given even more impetus to aggressively raise rates on June 10 when the US posted some stronger-than-expected overall and core CPI data for May. The short-term money markets saw moves to price in 50bp rate hikes at the next three FOMC meetings, with the AUD/USD pair falling from the lower-$0.71 mark to around $0.7040 on rampant US dollar buying.

A risk-off mood prevailed mid-June on expectations for a substantial FOMC rate hike, so US stocks fell and the currency pair tumbled to $0.6850. However, the Australian dollar was then bought after RBA governor Philip Lowe said Australian inflation would hit 7% by the year's end and would remain at highs over 1Q 2023. The pair then rose to $0.7025 after risk appetite grew on FRB chair Jerome Powell's press conference after the FOMC meeting. The pair fell back to the lower-$0.69 level on June 17 as the greenback was bought on a Bank of Japan (BOJ) decision to continue easing and on hawkish comments by dovish FRB governor Neel Kashkari.

On June 21, RBA governor Philip Lowe said the RBA board would implement a 25 or 50bp rate hike when it met in July, with a 75bp hike unlikely. The markets were expecting the cash rate to be lifted to around 4% by the year's end, but Mr. Lowe said that was not likely to happen. The Australian dollar was sold on these dovish comments. However, this trend eased on bullish stock movements, with the currency pair floating at the upper-$0.69 level. Fears of a recession flared up again on June 22 after FRB chair Jerome Powell said it would be very difficult to steer the economy toward a soft landing. As US interest rates fell, the greenback was sold and the AUD/USD pair rose to the lower-$0.69 mark. The pair fell to $0.6870 on risk aversion on June 23, though it subsequently climbed back on the bearish results of the US June manufacturing and services PMIs. However, the pair's topside was capped around $0.69 as US interest rates rose after FRB governor Michelle Bowman offered support for a 75bp rate hike at the July FOMC meeting. The greenback was bought on position adjustments towards the month's end, with the pair moving around \$0.69.

2. Outlook for This Month

The AUD/USD pair's downside might be tested in July.

The June RBA statement mentioned that "higher prices for electricity and gas and recent increases in petrol prices mean that, in the near term, inflation is likely to be higher than was expected a month ago," adding that "the Board expects to take further steps in the process of normalizing monetary conditions in Australia over the months ahead." This suggests the RBA will lift rates aggressively to tackle inflation in July too. In a speech on June 21, RBA governor Philip Lowe said the RBA was looking into lifting rates by 25bp or 50bp in July. However, a 50bp hike seems more likely given how Australia's core and overall CPI figures are moving substantially higher than the RBA's target range of 2–3%. A 50bp hike also seems more likely given how Australia's policy rate stands at 0.85%, some way off the neutral rate (the rate that would have neither an easing nor a tightening effect on the economy), estimated to be around 2.5% by the RBA, with the RBA likely to want to close this gap as quickly as possible. However, the markets have already priced in a rate hike of more than 40bp in July, so a hike in the range of 0.5% might not by itself lead to Australian-dollar buying. As such, investors will be watching out for any changes in the accompanying statement. Household spending trends will attract the most attention. The June statement mentioned how "one source of uncertainty about the economic outlook is how household spending evolves," adding that "while the central scenario is for strong household consumption growth this year, the Board will be paying close attention to these various influences on consumption as it assesses the appropriate setting of monetary policy." Investors will be keeping an eye out for any changes to this assessment. If the phrase about how "the central scenario is for strong household consumption growth" is removed from the July statement, this might be read as suggestive of an impending recession. As this suggests, the Australian dollar could be pushed lower by the contents of the July statement. Consumer sentiments also remain in the doldrums, with the Consumer Confidence Index sliding for six months in a row now. Household debt is also ballooning as mortgage repayments rise on rate hikes. It will also be interesting to see how the RBA views these issues.

Meanwhile, market participants are moving faster to factor in US rate hikes following the higher-than-expected upswing in the US May CPI data (released June 10). The FOMC implemented a 75bp rate hike on June 15. This was followed by a number of hawkish comments by FRB officials, so the markets are now expecting the FOMC to lift rates by 75bp again when it meets on July 27. However, recessionary concerns are also growing and some observers are also suggesting the policy rate might be lowered towards the year's end. The benchmark yield on 10-year US treasuries has risen sharply on moves to price in rate hikes after the CPI announcement, but if the above scenario comes to pass, yields might drop back. However, even if yields do slide on the risk of an economic slowdown, stocks could be susceptible to sharp falls following a round of dollar selling. The Australian dollar is highly sensitive to market sentiments, so if stocks do slide, this could keep a lid on the AUD/USD pair's topside.

If the Australian dollar's downside momentum continues, investors might test the pair's June low of \$0.6851 or its May low of \$0.6829.

Mizuho Ashizaki, Canada Office, Americas Treasury Department

Canadian Dollar – July 2022

Expected Ranges	**Against the US$: C$1.2700–1.3200**
	Against the yen: JPY100.00–110.00

1. Review of the Previous Month

The USD/CAD pair opened June trading at C$1.2644. There were no signs of inflation peaking out, with central banks continuing to tighten policy. The greenback rose on risk aversion as stocks plummeted on sharp rate hikes, for example. The Canadian dollar is supported by crude oil prices, but these also fell on recessionary concerns. The currency pair topped C$1.30 at times, with the US dollar continuing to trend upwards.

As expected, the Bank of Canada (BOC) lifted its policy rate by 50bp to 1.50% at the Monetary Policy Committee meeting held on June 1. The accompanying statement said the BOC was prepared to act strongly if needed to ensure inflation returned to the 2% target. In his press conference the following day, the BOC deputy governor said the policy rate could be raised to 3% or higher. The Canadian dollar was bought as a result. With crude oil prices also rising, the currency pair dropped to C$1.2518 on June 8. However, on June 10, the greenback then soared on runaway inflation after the US CPI data hit around 40-year high of 8.6%. The USD/CAD pair subsequently topped C$1.28. US long-term interest rates then rose on expectations for a substantial rate hike at the FOMC meeting. With investors continuing to buy the US dollar, the FOMC decided to lift the target range for the FF rate by 75bp to 1.50–1.75% on June 15, as expected. The FOMC downgraded its GDP forecast while upgrading its price outlook. It also upgraded its policy rate forecast for the end of 2022 from 1.9% to 3.4%. It also reaffirmed its strong hawkish commitment to rein inflation back to 2%. All this saw the currency pair climbing to C$1.2970, though it then weakened as US long-term interest rates fell after FRB chair Jerome Powell commented at his press conference that the recent large-scale rate hikes would not become the norm. The pair subsequently dropped back to C$1.2864. However, market relief was short-lived, with the Bank of England then lifting rates by 25bp and the Swiss National Bank by 50bp. Recessionary concerns grew on these central bank rate hikes, with the ECB also expressing its intention to lift rates in July and September.

The greenback was bought on risk aversion on June 17. With crude oil prices also falling, the pair strengthened to C$1.3079. The closely-watched Canadian May CPI data was released on June 22. CPI recorded its highest year-on-year growth since 1983, though this was broadly within the bounds of market expectations, so the pair's reaction was muted. In his testimony to Congress on the same day, FRB chair Jerome Powell said it would be difficult for the US economy to make a soft landing, though he said the jobs situation would still be healthy if the unemployment rate climbed to 4.1–4.3%. He also said it might be possible to maintain a strong labor market while tackling inflation. The mid- to long-term expected inflation rate in the University of Michigan's June consumer sentiment index was also revised downward from the preliminary figure, with concerns about excessive FRB monetary tightening subsequently waning. As risk aversion eased, the USD/CAD pair fell to the mid-C$1.28 level before trading with a lack of direction at the upper-C$1.28 level at the month's end.

2. Outlook for This Month

The Bank of Canada (BOC) has led the way with rate hikes entering 2022, but the FOMC implemented a substantial 75bp rate hike last month, with Canada’s policy rate now lagging behind by 25bp. Canada also released some strong May CPI data and it seems likely the BOC will implement a 75bp rate hike at the Monetary Policy Committee meeting on June 13. Canada’s policy rate outlook for the end of 2022 has been upgraded to 3.25%, with the markets hastily pricing in four more rate hikes within the year. Canadian house sales have fallen for successive months in tandem with rate hikes. With household debt also ballooning, concerns are rising about the impact of sharp rate rises.

Canada’s finance minister has also said there is no guarantee Canada will achieve a soft landing by reining in inflation without damaging the economy, with recessionary concerns gradually rising. However, the Canadian employment data remains robust at present. The unemployment rate hit a record low of 5.1% in May, with average hourly wages rising and demand high. With Canada’s economy apparently recovering, the BOC is likely to remain committed to tackling inflation, with Canada likely to lift rates at the same pace as the US for the time being. At its last meeting, the FOMC upgraded its policy rate forecast for the end of 2022 from 1.9.% to 3.4%. The FRB is also expecting rates to be lifted at a fast pace over the four remaining FOMC meetings this year. The markets will be focusing on the scale of the rate hike this month. Most observers believe the FOMC will implement a 75bp rate hike when it meets on July 27. FRB chair Jerome Powell has said the pace of rate hikes will depend on the data, so attention will focus in particular on the July 13 released of the US CPI data, with the USD/CAD pair likely to be swayed significantly by the result.

The situation could also change if signs of improvement are seen when it comes to the Ukraine situation, Chinese lockdowns or supply chain problems, for example. Central banks are tightening policy as they prioritize the fight against inflation, with recessionary concerns growing as a result. An economic hard landing seems unavoidable. Pessimism is growing and there are also fears that the currencies of emerging economies will face downward pressure. Crude oil prices are also trending downward on recessionary concerns. With supply conditions remaining tight, though, prices will face strong upwards pressure, with crude oil prices likely to continue trading with a firm downside at $100–115/barrel. In July investors should keep a close watch on stock and bond movements on recessionary fears, while US long-term interest rates and economic indicators will also require monitoring. The greenback is likely to continue trending upwards as concerns about a recession grow on global monetary tightening, with the USD/CAD pair expected to trade between C1.27–1.32.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – July 2022

Expected Ranges **Against the US$: KRW 1,270–1,320**
Against the yen: JPY 10.309–10.753 (KRW 100)

1. Review of the Previous Month

The USD/KRW pair rose sharply in June.

The pair closed at KRW1237.2 on June 1. With South Korea on holiday, the US released a bullish May Manufacturing ISM Report on Business during overseas trading time on June 1. As US interest rates began rising again, the pair opened at KRW1.248.8 on June 2, the first South Korean business day of the month.

The US then released a bearish US ADP National Employment Report for May, while South Korea released some stronger-than-expected May CPI data on the morning of June 3 (+5.4% y-o-y against forecasts for +5.1% y-o-y), with the pair subsequently falling to KRW1242.7 on June 3. The US employment data for May was released during overseas trading time on June 3. The data suggested the labor market was growing tighter, with average wages rising, so the greenback was bought toward the weekend, with the currency pair opening the second week trading at KRW1255.0 on June 7.

A dearth of noteworthy factors saw the pair moving with a lack of incentives at the upper-KRW1250 mark over June 8–9. As expected, the ECB Governing Council indicated to end QE and commence rate hikes in July when it met during overseas trading time on June 9. The meeting led some market participants to predict 50bp rate hikes from September onwards. With concerns also growing about the impending release of the US May CPI data on June 10, US stocks fell sharply during overseas trading time on June 9. The dollar was subsequently bought on risk aversion, with the currency pair climbing to KRW1268.9. The US May CPI data was released during overseas trading time on June 10. At +8.6% y-o-y (forecast: +8.3% y-o-y), CPI growth hit its highest level in around 40 years. This led to market concerns about faster rate hikes, with the pair then opening the third week trading at KRW1280.0 on June 13.

In the first half of the week, a renowned Fed watcher said the FOMC might lift rates by 75bp in June. This saw the currency's topside edging steadily higher, with the pair climbing to KRW1293.2. As broadly expected, the FOMC implemented a 75bp rate hike (ceiling: from 1.00% to 1.75%) when it met early on June 15, but US interest rates of all durations then fell sharply after FRB chair Jerome Powell ruled out a 1.00% rate hike. The USD/KRW pair dropped back to KRW1276.5 when trading opened on June 16. With recessionary concerns sweeping the markets, though, the pair gradually edged higher. The pair rose to KRW1302.8 on June 23 on the South Korean PPI result (+9.7% y-o-y) and a comment by the BOK governor about prolonged inflation. The won was bought on real demand at the month's end. The pair was also sold on a sense of accomplishment when it hit the key KRW1300, so if then fell back slightly. In the end, the pair closed the month at KRW1298.4, up 61.2 won on the end of May.

2. Outlook for This Month

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

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

(1) Inflationary changes and FRB monetary policy, (2) BOK monetary policy, and (3) soaring resource prices and supply chain turmoil due to geopolitical risk surrounding Russia and Ukraine.

As for (1), the FOMC implemented a 75bp rate hike when it met on June 15. In his testimony to Congress in the latter half of the month, FRB chair Jerome Powell ruled out a 1.00% rate hike, though he admitted inflation might drag on for a while and he said the FRB would do whatever it took to keep inflation in check. US interest rates rose as investors factored in long-term inflation, with stocks falling and the dollar bought on risk aversion. The University of Michigan consumer sentiment index (released June 24) revealed that consumers expected inflation to remain at 5.3% in one year's time, so it will probably take some time before inflation indicators cool off. Under these circumstances, it seems the dollar will be bought across the board for a little while longer.

With regards to (2), the BOK has also voiced concerns about prolonged inflation like the FRB and it has positioned inflation control as its top priority. The markets are expecting the BOK's policy rate to reach around 3% before the year is out, with the won also likely to be bought on concerns about interventions by the authorities. All this will work to prevent the pair from rising excessively to top the key KRW1300 mark again.

Turning to (3), and the won is facing less buying pressure on the real-demand front as South Korea's current account balance deteriorates on soaring resource prices (a driver of inflation) and supply chain turmoil.

In addition to the above, the won is also being sold as overseas investors sell South Korean stocks intermittently as funds flow towards the dollar. Given all this, it seems the USD/KRW pair will continue rising, though the pace of its rise might gradually slow.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – July 2022

Expected Ranges **Against the US$: NT$29.20–29.95**
Against the yen: JPY4.45–4.66

1. Review of the Previous Month

The USD/TWD pair rose in June, though its topside was held down as exporters sold the greenback.

The pair opened the month trading at TWD29.060 on June 1. It then dropped to TWD29.030, though it continued trading in a range. Overseas investors had bought Taiwanese stocks on balance for successive days until the previous day, but they now began selling on balance, so the Taiwan dollar was gradually sold and the pair edged higher. With Taiwanese stocks moving bearishly, the pair hit TWD29.5 on June 7.

Concerns about faster US interest rates grew on the results of the US May CPI data released in the previous week, with the US dollar bought at a faster pace the following week on June 13. As Taiwanese stocks fell sharply, the pair strengthened to around TWD29.75. The pair continued rising to hit TWD29.8 on June 14, though exporters sold the greenback at highs, so the pair continued trading at TWD29.7. The Central Bank of the Republic of China (Taiwan) (CBC) implemented a 0.125% rate hike when it met on June 16, though the impact on the currency pair was muted.

The Taiwan dollar was sold on bearish Taiwanese stock movements in the latter half of the month. Exporters sold the US dollar around TWD29.800, so the pair's topside moved heavily, though the pair did touch TWD29.815 for a time on June 24. The final results of the University of Michigan's consumer sentiment index were released at the weekend and they showed inflationary expectations dipping below forecasts. As speculation about sharp rate hikes receded, US stocks rose and Taiwanese stocks also climbed higher on June 27. The Taiwan dollar was bought and the currency pair dipped to around TWD29.60. However, Taiwanese stocks then moved bearishly, so the pair returned to around TWD29.70.

2. Outlook for This Month

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

The Taiwan dollar was sold in June as stock markets moved bearishly due to concerns about an economic slowdown on sharp rate hikes. However, June was also the end of the quarter, so the USD/TWD pair's topside was held down as exporters sold the greenback. Export orders suffered a y-o-y contraction in April, but they returned to positive territories in May, so it seems orders only underwent a temporary fall on the Shanghai lockdown. With recessionary concerns growing, though, investors should continue to monitor this leading indicator.

The markets rushed to price in a faster pace of rate hikes after the release of the US CPI data. The FOMC hiked rates by 0.75%, but the CBC only lifted rates by 0.125%, less than the 0.25% hike at the previous meeting, with the CBC seeking to avoid pushing costs up through sharp rate rises. As the CBC holds its Monetary Policy Meeting only once every three months, the CBC governor Chin-Long Yang said the bank might hold an emergency meeting if the situation changes. However, this seems unlikely given the bank's previous rate-hike stance and the reasons it gave for its June rate hike, with the CBC likely to lift rates at a gentle pace until prices cool down.

In July, the pair will continue to be swayed by investor moves on US inflation, the pace of rate hikes, and recessionary concerns. Exporters had remained in wait-and-see mode, even during the phase of Taiwan-dollar bearishness from March onwards, but they began selling the greenback in May, so the currency pair's topside was held down. Exports are moving at record high levels, with the pair's topside likely to be capped by US-dollar selling by exporters in July too. However, imports are growing at a faster pace than exports, so Taiwan's trade surplus is shrinking. From here on, market participants should monitor US-dollar buying by importers too.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – July 2022

Expected Ranges **Against the US$: HK$ 7.8400–7.8500**
Against the yen: JPY 16.60–17.80

1. Review of the Previous Month

Hong Kong dollar spot exchange market in June

HKD spot was sticking to its weak-side convertibility undertaking of 7.85 after Fed's 75bps rate hike in June. With the USD-HKD rate differential widening and increasing carry trade return of long USD/HKD spot, the HKMA stepped up its FX intervention operation to defend the USD-HKD peg. The HKD selling pressure from the carry trade outweighed the seasonal dividend flow of HKD purchase from Chinese corporate and Stock Connect inflow. Indeed, the HKD T/N forward points fell further to near -3 points per day after Fed's 75bps hike. As a result, the HKD was trading at near 7.85 level most of the time in June. Meanwhile, the HK growth outlook continued to improve. PMI for May jumped to its decade high of 54.9 level, and the unemployment rate dropped to 5.1% from prior 5.4%. Retail sales for April unexpectedly soared by 11.7%YoY given the boost from the distribution of consumption vouchers. On the virus front, the infected cases picked up but the government refrained from tightening the social distance measures.

Hong Kong dollar interest rate market in June

HKD HIBOR curve played a fast catch-up with the USD rate hikes. In June, 1-month and 3-month HKD HIBOR jumped from 0.2% and 0.9% to 0.8% and 1.7%, respectively. In order to defend the USD-HKD peg, the HKMA intervened in the FX market and the non-sterilized FX intervention drained HKD liquidity continuously, sending the HKMA aggregate balance lower from HKD 320bn to HKD 233bn in June. The front-end HKD HIBOR curve also jumped sharply before the half-year end. Against the USD rates, 1-month and 3-month HKD HIBOR – USD LIBOR spread rose to -90bps and -80bps from -70bps and -50bps, respectively. Despite rising US recession risk and the possible Fed's rate cut cycle in coming years, the soaring HKD HIBOR lifted 3Y HKD IRS to 3.3% from 2.7% in June.

2. Outlook for This Month

Hong Kong dollar spot exchange market in July

As another Fed's 75bps hike is on the table in July, the HKD spot is likely to stick to its weak-side convertibility undertaking of 7.85 level for a while. Considering the widening USD-HKD interest rate spread and stronger capital outflow pressure, we look for a quickening decline in the aggregate balance, but the HKD rate hike pace will likely stay lagging behind the Fed's aggressive rate hike cycle. We reckon that HKD liquidity condition will remain relatively ample compared to tighter USD liquidity condition during Fed's rapid balance sheet reduction. Overall, the increasing f carry trade flow of long USD/HKD is set to outweigh the dividend flow from Chinese corporate and Stock Connect inflow for buying China tech from foreign investors due to expectation of completing the crackdown on the platform economy.

Hong Kong dollar interest rate market in July

As the HKMA stepped up its FX intervention to defend the USD-HKD peg and withdrew HKD liquidity at a faster pace, the HKMA aggregate balance outstanding could drop towards the threshold of HKD 100bn sooner than expected, with a breakthrough below the level to trigger a significant rate hike in HKD market. We also expect HK banks to raise the prime rate as soon as in late September after the FOMC meeting. Looking back, HK banks raised the HKD prime rate from 5% to 5.125% in September 2018 when the HKD prime rate – 1-mth HKD HIBOR spread narrowed to 2.79%. Taking into account the quickening decline in aggregate balance, we reckon that 1-month HKD HIBOR could climb to around 2% after FOMC meeting in September, followed by a HKD prime rate hike in late September. The rising HID HIBOR will also drive HKD IRS curve higher but the increasing US recession risk will likely keep the upside in check.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – July 2022

Expected Ranges	**Against the US$: CNY 6.6000–6.8000**
	Against the yen: JPY 19.25–20.75

1. Review of the Previous Month

In June, the U.S. dollar/Chinese yuan exchange rate did not move in any direction.

The U.S. dollar/Chinese yuan exchange market opened at the CNY 6.66 level on June 1. After the Dragon Boat Festival holidays, the U.S. dollar started strengthening, while the Chinese yuan started weakening on June 6, as market participants became aware of the difference in monetary policy between China and other countries such as the U.S. and Europe, waiting for European Central Bank (ECB) and Federal Open Market Committee (FOMC) meetings. Thus, the U.S. dollar/Chinese yuan exchange rate remained high. On June 13, the CPI of the U.S. turned out to be high, fueling concerns over inflation, and this resulted in the rise of interest rates in the U.S. Following this trend, the U.S. dollar/Chinese yuan exchange rate rose to temporarily reach the mid-CNY 6.76 level on June 14. Thereafter, the MLF was maintained at the existing level on June 15, while major domestic indices turned out to be strong in China. In the U.S., an FOMC meeting was held, after which the U.S. dollar depreciated sharply. As a result, the U.S. dollar/Chinese yuan exchange rate fell to approach the CNY 6.68 level.

At the end of the month, domestic investors continued buying the U.S. dollar intermittently, as the end of the half-year term was approaching. As a consequence, the U.S. dollar/Chinese yuan exchange rate rose to the CNY 6.72 level on June 22. However, there were no more factors to maintain this trend, and the exchange rate did not rise further. On June 28, the media reported the decision made by the Chinese government to shorten the quarantine period for those who enter the country from abroad, in reaction to which the Chinese yuan appreciated and the U.S. dollar/Chinese yuan exchange rate once fell below the CNY 6.68 level. However, this trend did not last for a long period of time. Within the same day, the U.S. dollar/Chinese yuan exchange rate returned to the CNY 6.70 level based on the general trend of U.S. dollar-buying observed in the market.

As of 15:00 (CST) on June 29, the U.S. dollar/Chinese yuan pair was trading at around the CNY 6.70 level.

2. Outlook for This Month

In July, the U.S. dollar/Chinese yuan exchange rate is forecast to fluctuate within a narrow range, without falling sharply.

From the end of April until the middle of May, the Chinese yuan depreciated at a historical rate, due to a sense of uncertainty over the economic outlook in China as well as speculations about further measures of monetary easing by the Chinese monetary authorities, as a result of strengthened quarantine measures in Shanghai. Also, the Chinese monetary authorities announced some economic bailout measures. However, at the current moment, the one-year LPR, which is the base rate for corporate loans, has been maintained at 3.70% (the rate was last cut in January 2022), while the five-year LPR, which is applied to housing loans, was cut only by 15 basis points to 4.45% in May. Even though the liquidity level in the capital market has been high, there has been no remarkable monetary policy implemented to impact the foreign exchange market. In June, the quarantine measures in Shanghai were gradually relaxed, and on June 28 the quarantine period was shortened for those who enter the country from abroad, which is positive news for the economic outlook in China. However, there are still many who remain pessimistic about the economic outlook of China, which is maintaining its zero-Covid policy. It is thus still too early to conclude that the Chinese economy has returned to the state before the lockdown.

When it comes to financial markets, Shanghai stock prices have already offset the fall observed during the lockdown. However, the capital inflow based on securities investment (stocks and bonds) from abroad, which used to be one of the main factors to strengthen upward pressure on the Chinese yuan in the past, remains low since the lockdown in Shanghai. From the point of view of international balance of payments as well, the trade surplus, which used to encourage Chinese yuan-buying in outright transactions, has also declined as a result of the lockdown.

While market participants are increasingly actively discussing recession in the U.S., upward pressure on the U.S. dollar/Chinese yuan exchange rate based on the appreciation of the U.S. dollar is likely to weaken in the time ahead. However, there are also the factors related to China mentioned above. Thus, the sharp rise of the U.S. dollar/Chinese yuan exchange rate observed since the end of April is unlikely to be inverted in a short-term period. The U.S. dollar/Chinese yuan exchange rate is thus most likely to fluctuate without moving in one direction.

On the other hand, market participants should remain attentive of announcements by the Chinese monetary authorities related to economic bailout measures while waiting for the 20th Congress of the Chinese Communist Party (currently scheduled for November).

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – July 2022

Expected Ranges	**Against the US$: SG$ 1.3400–1.4100**
	Against the yen: JPY 95.00–100.00

1. Review of the Previous Month

In June 2022, the Singapore dollar depreciated against the U.S. dollar.

From the beginning of the month, the Singapore dollar depreciated gradually against the U.S. dollar. On June 3, the employment statistics of the U.S. were announced with strong figures, in reaction to which the U.S. dollar appreciated. Toward June 6 at the beginning of the week, interest rates continued rising and stock prices continued falling in the U.S., while the Singapore dollar weakened. As a result, the U.S. dollar/Singapore dollar exchange rate, which had been fluctuating at the upper-SGD 1.36 level at the beginning of the month, rose to the lower-SGD 1.38 level.

On June 10, the U.S. dollar/Singapore dollar exchange rate did not move significantly, as the May CPI of the U.S. was to be out on the same day. Thereafter, the May CPI of the U.S. led market participants to expect further measures of monetary tightening. As a result, interest rates rose in the U.S. Thus, the Singapore dollar remained weak, and the U.S. dollar/Singapore dollar exchange rate rose to the upper-SGD 1.38 level.

On June 15, the policy interest rate was raised by 75 basis points at the June Federal Open Market Committee (FOMC) meeting in the U.S. At the press conference after the FOMC meeting, Federal Reserve Board (FRB) Chair Jerome Powell made a remark that a 75-basis-point increase was an unusually large one, and he did not expect moves of this size to be common. As a consequence, the market sentiment was ameliorated. However, the Singapore dollar remained weak, and the U.S. dollar/Singapore dollar exchange rate reached the SGD 1.39 level.

In the middle of the month, the Singapore dollar somewhat rallied after key events had passed. As the stock markets in China strengthened, the Singapore dollar appreciated slightly against the U.S. dollar. As a result, the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.38 level. Thereafter, U.S. President Joe Biden mentioned possible dialogue with Chinese President Xi Jinping and the lifting of some of the punitive tariffs imposed on Chinese products. As stock prices also rallied in the U.S., risk sentiment in the market was ameliorated, leading the Singapore dollar to appreciate, and the U.S. dollar/Singapore dollar exchange rate once reached the mid-SGD 1.38 level.

On June 22, FRB Chair Jerome Powell did not make any remarks that could be seen as a surprise in the market. Thus, the market stabilized once. The rise of interest rates in the U.S. slowed down due to growing concerns over a domestic economic slowdown. Under such circumstances, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range. As of June 29, the U.S. dollar/Singapore dollar exchange rate was fluctuating at the upper-SGD 1.38 level.

2. Outlook for This Month

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

In April, the Monetary Authority of Singapore (MAS) announced its plan to tighten monetary policy in two ways. The next MAS meeting is scheduled for October, and the MAS is expected to change only the slope of the NEER band (without raising the middle point of said band).

The CPI of Singapore is certainly on the rise. However, its rise is relatively moderate compared to that in the U.S. Furthermore, the MAS made a remark that monetary measures are not necessarily the best solution to all sorts of inflation (especially inflation in the food industry). The MAS thus maintains its view that both monetary measures and fiscal measures are necessary.

Under such circumstances, in April the MAS announced overwhelmingly hawkish monetary measures that turned out to be a surprise in the market. However, the MAS does not face an urgent situation toward use of the few remaining options in monetary policy in haste. Therefore, out of the two possible options, the MAS is expected to change only the slope of the NEER band without raising the middle point of the NEER band at the next meeting as discussed above.

In any case, the next MAS meeting is scheduled for October, and it is inevitable for interest rate differentials to widen between Singapore and the U.S., which is likely to continue rising the policy interest rate in an intermittent manner. For this reason, the Singapore dollar is forecast to weaken against the U.S. dollar in July. As interest rate hikes and quantitative tightening in the U.S. are likely to impact overall Asian currencies, this trend is likely to continue not only in July but also throughout the third-quarter period.

Takeshi Hashi, Bangkok Treasury Office, Asia & Oceania Treasury Department

Thai Baht – July 2022

Expected Ranges **Against the US$: THB 34.50–36.00**
Against the yen: JPY 3.70–3.90

1. Review of the Previous Month

In June, the U.S. dollar/Thai baht exchange rate renewed its yearly high.

At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at around the THB 34.30 level. In Thailand, movement restrictions were relaxed as of June 1, and this fueled expectation for an economic recovery, improving the domestic market sentiment. On June 6, the May CPI of Thailand was announced, and the result turned out to be +7.9% year-on-year—significantly stronger than the estimate, which was +5.9%. In reaction, interest rates in Thailand rose sharply. However, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range at around the THB 34.40 level thereafter, as a Monetary Policy Committee (MPC) meeting at the central bank of Thailand was scheduled for June 8. At that meeting, the policy interest rate was maintained at 0.50%, as had been anticipated in the market. However, the decision was taken not unanimously but based on voting 4 against 3. Thus, market participants became more conscious of a possible interest rate hike at the next meeting. On June 9, after the weekend, the U.S. dollar/Thai baht exchange market opened trading at around the THB 34.50 level. On June 10, the May CPI of the U.S. was announced, attracting substantial attention in the market, and the result turned out to exceed the estimate, at +8.6% year-on-year. As market participants were already expecting inflation in the U.S. to peak out, expectation for further monetary tightening by the Federal Reserve Board (FRB) grew even further after this announcement, leading interest rates to rise in the U.S. Following this trend, the U.S. dollar appreciated as well, and the U.S. dollar/Thai baht exchange rate rose sharply, temporarily approaching the THB 34.80 level. On June 13, the U.S. dollar remained strong, while the governor of the central bank of Thailand, Sethaput Suthiwartnarueput, who had been maintaining a dovish stance, made a remark that it is not desirable to raise the policy interest rate too late. In reaction, market participants expected an interest rate hike in Thailand, and the U.S. dollar/Thai baht exchange rate fell to approach the THB 34.75 level. However, market participants started buying the U.S. dollar again thereafter, and the U.S. dollar/Thai baht exchange rate rallied to approach the THB 34.90 level.

On June 15, the European Central Bank (ECB) announced a sudden decision to hold an extraordinary meeting before a Federal Open Market Committee (FOMC) meeting, which led the euro to appreciate sharply. While market participants remained cautious of unexpected decisions that might be announced by various central banks, the trend in the U.S. dollar/Thai baht exchange market was inverted, and the exchange rate started to fall. After attracting substantial attention in the market to its meeting, the FOMC decided to raise the policy interest rate by 0.75%, as had been anticipated in the market. As market participants confirmed that the FRB was ready to take measures to control inflation, expectations grew for the slowdown of inflation. FRB Chair Jerome Powell implied the possibility of an interest rate hike by 0.50% or by 0.75% at the FOMC meeting in July, leading U.S. government bond yields to fall. Under such circumstances, market participants started to actively sell the U.S. dollar. As a result, the U.S. dollar/Thai baht exchange rate fell to approach the THB 34.80 level. Then, on June 17, the media reported that the central bank of Thailand did not see an extraordinary meeting as being necessary. However, the impact of this on the foreign exchange market was minimal, and the U.S. dollar/Thai baht exchange rate did not fall significantly after rising by 20 satang in the morning. On June 21, the headlines reported that Minister of Finance Arkhom Termpittayapaisith had carried out hearings with commercial banks about maintaining the policy interest rate to support the economy. In reaction, market participants started actively selling the Thai baht, and the U.S. dollar/Thai baht exchange rate renewed the daily high at around the THB 35.40 level. On June 22, concerns over a recession in the U.S. persisted in the market, and the overall Asian currencies continued depreciating. Under such circumstances, the U.S. dollar/Thai baht exchange rate rose to approach the THB 35.60 level, renewing the yearly high. On June 27, in the last week of the month, market participants expected rebalancing flows for the end of the half year term and bought back the Thai baht, which had been previously actively sold. As a result, the U.S. dollar/Thai baht exchange rate fell from around THB 35.50 to around THB 35.30. Then, on June 28, the Chinese government announced its decision to shorten the quarantine period for those entering the country, and this fueled expectations for an amelioration in the travel balance in the Asian region. As a result, the U.S. dollar/Thai baht exchange rate fell to approach the THB 35.00 level on June 29. In the end, monthly trading closed at around the lower-THB 35 level.

2. Outlook for This Month

In July, the U.S. dollar/Thai baht exchange rate is forecast to fall.

In June, the U.S. dollar/Thai baht exchange rate renewed its yearly high and temporarily approached the THB 35.60 level. However, when the exchange rate reached the high, the CPI of the U.S. turned out to be higher than the market estimate, while the monetary policy in Thailand was maintained as-is. On the other hand, the FRB decided to raise its policy interest rate by 0.75% in order to control inflation, showing a willingness to carry out further monetary tightening in order to control inflation, and this encouraged market participants to buy the U.S. dollar. However, after the FOMC meeting in the U.S., the central bank of Thailand finally started to prepare itself for interest rate hikes. Furthermore, at the end of the month, concerns grew over a recession in the U.S. As a result, the U.S. dollar/Thai baht exchange rate started to fall after renewing its high. Moreover, toward the end of the month, the Chinese government announced its decision to shorten the quarantine period, which fueled expectations for Chinese tourists, which were previously the most-dominant group of tourists in Thailand, to return to Thailand. As a consequence, the U.S. dollar/Thai baht exchange rate did not rise further thereafter.

Before the Covid-19 pandemic, there was growing pressure to buy the Thai baht thanks to the trade surplus and the current account surplus of Thailand. However, due to the Covid-19 pandemic and the global trend of inflation, the trade surplus of Thailand decreased, and the current account surplus turned into a current account deficit. Thus, there were not many factors to encourage market participants to buy the Thai baht. However, in May 2022, foreign visitors started to return to Thailand at a fast pace, and thanks to growing expectations for an improvement in the services balance, the current account deficit is expected to turn into a surplus again in the times ahead.

In the U.S., the FRB seems to be less in a hurry about monetary tightening, as a policy interest rate hike of 0.75% expected in July has almost entirely been reflected in the market, even though market participants remain cautious about inflation. As concerns over recession in the U.S. are also growing daily, it is unlikely for the FRB to actively take more measures of monetary tightening.

In Thailand, the governor of the central bank of Thailand, Sethaput Suthiwartnarueput, who is known to take dovish measures, started to mention the possibility of interest rate hikes. Thus, an increasing number of market participants are expecting an interest rate hike in Thailand before the end of the year. While market participants continued selling the Thai baht thus far, it has now become slightly more likely for the Thai baht to start strengthening. The current level of resistance in the U.S. dollar/Thai baht exchange market is the THB 36.00 level, and if the U.S. dollar/Thai baht exchange rate does not exceed this level rapidly, market participants are likely to expect a shift in the market trend. Thus, the Thai baht is more likely to start strengthening in July and in the times ahead.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – July 2022

Expected Ranges **Against the US$: MYR 4.35–4.45**
Against the yen: JPY 29.85–31.06

1. Review of the Previous Month

In June, the Malaysian ringgit remained weak, and the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range.

At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange market opened at around the MYR 4.38 level. Thereafter, market participants sold the Malaysian ringgit in reaction to strong figures in the May employment statistics of the U.S. There were also some phases in which market participants bought the Malaysian ringgit to some extent, as Covid-19 cases decreased in China and as the North Sea Brent crude oil price reached the USD 124 level for the first time since the end of May. However, this trend did not last for a long time. On June 16, there were no important remarks made by Federal Reserve Board (FRB) officials, as there was a blackout period before a Federal Open Market Committee (FOMC) meeting in the U.S., and there were no active transactions in the market. Thus, the U.S. dollar/Malaysian ringgit exchange rate did not fluctuate significantly before reaching the MYR 4.40 level.

Toward the middle of the month, a European Central Bank (ECB) committee meeting was held on June 9, announcing the reduction of measures of quantitative easing as well as an interest rate hike in July, and this encouraged market participants to buy the euro. However, this trend did not last long either, and the U.S. dollar rallied thereafter. As a result, the U.S. dollar/Malaysian ringgit exchange rate exceeded the psychological turning point at MYR 4.40. Then, on June 10, the May CPI of the U.S. was announced, and the result turned out to be the highest in 41 years, at +8.6% year-on-year, demonstrating the accelerating rise of food, housing, and services prices, in addition to an increase of gasoline prices. In reaction, the U.S. dollar appreciated, and the U.S. dollar/Malaysian ringgit exchange rate reached the MYR 4.42 level. On June 26, an FOMC meeting was held in the U.S., attracting substantial attention in the market. At the FOMC meeting, the policy interest rate was raised by 75 basis points, which turned out to be a slight surprise in the market. In the FOMC statement, the phrase “the FOMC is strongly committed to bringing down inflation to the 2% target” was added, which confirmed that the FRB was ready to take extremely strong measures against inflation. On the other hand, FRB Chair Jerome Powell commented that he did not expect 75-basis-point interest rate hikes to be common. This comment was seen slightly dovish with regard to interest rate hikes at the next FOMC meeting in July and beyond. Thereafter, the U.S. dollar/Malaysian ringgit exchange rate fluctuated within a narrow range at around the MYR 4.40 level again by offsetting the depreciation of the Malaysian ringgit as observed after the CPI announcement on June 10.

Toward the end of the month, there was no particular factor present in the market, and the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range. Market participants expected the U.S. to enter a recession phase based on remarks made by FRB Chair Jerome Powell. As a result, the North Sea Brent crude oil price once fell to the USD 107 level. In reaction, the U.S. dollar/Malaysian ringgit exchange rate rose to the upper-

MYR 4.40 level again. Then, on June 24, the May CPI was announced, and the headline inflation turned out to be +2.8%, recording an increase that was more significant than what was estimated in the market. Furthermore, the core inflation, which excludes food and energy prices, recorded an increase for the eighth consecutive month, at +2.4%. This confirmed the impact of the price increase in the service sector such as restaurants and hotels, in addition to the impact of the rise of resource and food prices. Even though this announcement impacted the market only to a limited extent, this left a strong impression in the market as one of the potential reasons for the policy interest rate to be raised at the monetary policy meeting scheduled for July 6.

2. Outlook for This Month

Inflation in major countries such as the U.S. has fueled concerns over the global economic outlook. Under such a context, inflation in Malaysia had been relatively stable. However, on June 24, the May CPI was announced with an alarming result for the slightly optimistic estimate. Furthermore, on July 6, the central bank of Malaysia scheduled a monetary policy meeting, and market participants are waiting to see whether the policy interest rate will be raised for the second consecutive month.

In terms of recent headlines pertaining to ASEAN-5, the respective central banks of Thailand and Indonesia decided not to raise policy interest rates in June. On the other hand, the central bank of the Philippines decided to raise its policy interest rate by 25 basis points for the second consecutive time, on June 24. The respective domestic situations of inflation differ slightly from country to country among the ASEAN members. In the Philippines and Thailand, the inflation rate has been above the inflation target set by the central banks, reflecting the difficulty that resource-importing countries are facing. In Indonesia and Malaysia, inflation had been controlled relatively well through the control of domestic gasoline prices. However, inflation has recently passed to food and service prices. In a statement to be released on June 6 when a monetary policy meeting is held, the central bank of Malaysia is expected to emphasize that inflation is controllable. However, if market participants expect early and large-scale interest rate hikes as is seen in other major countries, the Malaysian ringgit is likely to remain weak.

The U.S. dollar/Malaysian ringgit exchange rate is currently fluctuating within a narrow range at around the MYR 4.4 level, waiting for the next leading factors. Whether the exchange rate will rise further or whether the trend will change depends on the trend in the U.S. dollar exchange market. The U.S. dollar index has not exceeded the high observed in May and the middle of June, showing some signs that it has already peaked out. Given the economic outlook in the U.S., the Malaysian ringgit could start rallying based on the fall of interest rates in the U.S., for which market participants should carefully observe in the coming month.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – July 2022

Expected Ranges	**Against the US$: IDR 14,500–15,000**
	Against the yen: JPY 0.90–0.94 (IDR 100)

1. Review of the Previous Month

In June, the Indonesian rupiah remained strong against the U.S. dollar at the beginning of the month but depreciated significantly toward the end of the month.

On June 2, after a national holiday in Indonesia, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,500 level. On the same day, the May CPI of Indonesia turned out to be 3.55%, remaining within the target range set out by the central bank of Indonesia. As inflation has slowed down, market participants were relieved and encouraged to buy the Indonesian rupiah. Toward June 3, the following day, the Indonesian rupiah continued appreciating, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 14,400 level, which turned out to be the monthly high for the Indonesian rupiah. On June 6, in the following week, the Indonesian rupiah continued trading against the U.S. dollar at the mid-to-upper IDR 14,400 level. However, on June 9, concerns grew over inflation in the U.S. as a result of the rise of crude oil prices. Market participants expected the interest rate in the U.S. to be raised, which kept the Indonesian rupiah from appreciating further. Under such circumstances, the U.S. dollar/Indonesian rupiah exchange rate rose to the upper-IDR 14,500 level. On June 10, the following day, the May CPI of the U.S. was announced, and the result recorded the most-significant increase in 40 years, confirming the situation in which inflation has not been controlled well. As a result, interest rates in the U.S. rose sharply. As the U.S. dollar generally appreciated, the Indonesian rupiah depreciated sharply on June 13 after the weekend, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 14,700 level. Thereafter, market participants maintained a wait-and-see attitude before the announcement of the outcome of a Federal Open Market Committee (FOMC) meeting. The U.S. dollar/Indonesian rupiah exchange rate thus did not move in any direction, fluctuating at the mid-IDR 14,700 level. At the said FOMC meeting, which attracted substantial attention in the market, an interest rate hike of 75 basis points was announced. As this had been anticipated in the market, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at the IDR 14,700 level. However, risk-averse sentiment grew in the market thereafter, along with concerns over an economic downturn. Thus, the Indonesian rupiah depreciated, and on June 17, the U.S. dollar/Indonesian rupiah exchange rate finally reached the mid-IDR 14,800 level, which is the yearly low for the Indonesian rupiah. In the following week commencing on June 20, the Indonesian rupiah remained weak. On June 22, interest rates rose globally, and concerns over inflation grew, and this all led the currencies of emerging countries in Asia to depreciate. Following this trend, the U.S. dollar/Indonesian rupiah exchange rate rose to the upper-IDR 14,800 level, and the Indonesian rupiah saw its lowest exchange rate in two years. On June 23, the following day, the central bank of Indonesia held a regular meeting, attracting substantial attention in the market, and announced the outcome of a decision to maintain the seven-day reverse repo rate—the policy interest rate of Indonesia—at 3.50%. As a majority in the market had anticipated the policy interest rate to be maintained at the existing level, there was only limited reaction to this announcement in the U.S. dollar/Indonesian rupiah exchange market. Risk-averse sentiment was thus mitigated, and the U.S. dollar/Indonesian rupiah exchange rate once reached the upper-IDR 14,700 level on June

27. However, there was also demand to buy the U.S. dollar toward the end of the month. In the end, as of daylight hours on June 29, the U.S. dollar/Indonesian rupiah exchange rate was fluctuating at the IDR 14,800 level.

2. Outlook for This Month

In July, the Indonesian rupiah is forecast to remain robust against the U.S. dollar.

In reaction to the results of the May CPI announced in May in the U.S., the market has further reflected a sharp rise of interest rates and policy interest rate hikes in the U.S. As a result, the Indonesian rupiah is currently weak against the U.S. dollar. However, compared to the U.S. dollar/Indonesian rupiah exchange market in 2018, in which the Indonesian rupiah continued depreciating while the U.S. continued raising its policy interest rate, the Indonesian rupiah has been more robust in the current market. Furthermore, many central banks in Asian countries have started raising their policy interest rates, as seen in India, Malaysia, and the Philippines. Under such circumstances, the central bank of Indonesia decided to maintain its policy interest rate at the existing rate in June, underlining the difference in monetary policy between Indonesia and other countries. As the Indonesian rupiah had seen its lowest exchange rate in two years, the majority of market participants had expected the policy interest rate to be maintained at the existing level. However, some market participants were expecting the central bank to raise the policy interest rate. Even though the current market conditions are harsh on emerging countries, the Indonesian rupiah has been relatively stable, and the Jakarta Composite Index has also been robust. Such situations in the foreign exchange and stock markets demonstrate the strength of Indonesia as a resource-rich country. It seems unlikely for the depreciation of the Indonesian rupiah to accelerate as long as the central bank of Indonesia keeps the option of raising the policy interest rate as a measure to protect its currency.

Furthermore, as was discussed in the article issued last month, resource prices are likely to remain high, given the unstable situation in Russia and Ukraine, as well as in the robust demand for resources. The May trade balance of Indonesia saw a significant decline in surplus compared to that in April, as a result of the ban on palm oil exports. However, the restriction on exports has already been lifted. It is therefore possible to expect a significant trade surplus in Indonesia, which is likely to support the Indonesian rupiah.

Risk scenarios include a possible situation in which the rise of CPI becomes uncontrollable in various countries and regions, while many countries including the U.S. at the top of the list are raising their policy interest rates. Such a situation is expected to fuel concerns over a global economic downturn, resulting in growing risk-averse sentiment in the market that could encourage market participants to sell the currencies of emerging countries. Following such a trend, the Indonesia rupiah could depreciate as well. However, as the most-likely scenario, the Indonesian rupiah is poised to remain robust in July.

Yuichiro Sakaki, Manila Treasury Office, Asia & Oceania Treasury Department

Philippine Peso – July 2022

Expected Ranges **Against the US$: PHP 53.00–56.50**
Against the yen: PHP 0.39–0.43

1. Review of the Previous Month

While concerns over inflation are growing again, market participants became cautious about further monetary tightening in the U.S. based on strong figures in U.S. economic indices. As a result, the U.S. dollar appreciated against major currencies in Asia. Following this trend, the Philippine peso depreciated and the U.S. dollar/Philippine peso exchange rate exceeded the PHP 52.500 mark at the beginning of the month for the first time in approximately three years. With some transactions of short-covering, the U.S. dollar/Philippine peso exchange rate reached the PHP 53.800 level. Thereafter, the May Consumer Price Index of the Philippines turned out to be 5.4%, recording a rise from the previous month, while a high trade deficit continued strengthening downward pressure on the Philippine peso. However, the incoming governor of the central bank of the Philippines, Felipe Medalla, mentioned possible interest rate hikes in June and August, and this kept the Philippine peso stable, at around the PHP 53.000 level. Thus, after the sharp depreciation of the Philippine peso at the beginning of the month, the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range during the first part of the month.

Thereafter, the May Consumer Price Index of the U.S. was announced demonstrating more-significant acceleration than expected. In reaction, the market reflected more future interest rate hikes in the U.S., leading to capital outflow from the stock and bond markets, with deteriorating market sentiment. As a result, the U.S. dollar/Indonesian rupiah exchange rate fell below the PHP 53.000 level. As market participants now saw it less likely for the Federal Open Market Committee (FOMC) to significantly raise its policy interest rate in consecutive months, the U.S. dollar weakened at some phases. However, concerns persisted regarding ongoing inflation and further monetary tightening in the U.S., and the Philippines peso remained weak. Furthermore, the incoming governor of the central bank of the Philippines, Felipe Medalla, made a remark that he would raise the policy interest rate in a gradual manner rather than raising it significantly at once, while some market participants were previously expecting a significant policy interest rate hike at the monetary policy meeting of the central bank of the Philippines. As a consequence, the depreciation of the Philippine peso accelerated, and the U.S. dollar/Philippine peso exchange rate exceeded the PHP 54.000 mark. The Philippine peso thus weakened significantly toward the middle of the month.

As a result of the interest rate hike, concerns grew over an economic downturn in the U.S., strengthening risk-averse sentiment in the market. Besides, having seen the dovish attitude of the central bank of the Philippines, the depreciation of the Philippine peso turned out to be more significant than that of other major currencies in Asia. On June 23, the central bank of the Philippines decided to raise the policy interest rate by 25 basis points, as had been anticipated by the majority of the market participants. However, this confirmed the attitude of the central bank to raise the policy interest rate in a gradual manner in the times ahead, as the policy interest rate was raised only by 25 basis points, while the inflation outlook was revised upward, fueling concerns over inflation. As a result, the Philippine peso remained weak. Furthermore, the said incoming governor of the central bank of the Philippines, Felipe Medalla, made a remark to tolerate the ongoing depreciation of the Philippine peso, emphasizing that he had no intention to protect the Philippine peso from the ongoing trend of depreciation. Thus, the depreciation of the Philippine peso accelerated, and the U.S. dollar/Philippine peso exchange rate once exceeded the PHP 55.000 level—the lowest rate for the Philippine peso since October 2005. In June, therefore, the Philippine peso confirmed its relative weakness among major Asian currencies.

2. Outlook for This Month

The ongoing global inflation does not seem to be peaking out any time soon, and after the FOMC meeting, Federal Reserve Board (FRB) Chair Jerome Powell suggested a significant interest rate hike at the July meeting. According to him, it is thus likely for the FOMC to further raise its policy interest rate either by 50 basis points or by 75 basis points. On the other hand, it is clear that an interest rate hike of 75 basis points announced this time is an unusual decision, and FRB Chair Jerome Powell also commented that he does not expect that this level of interest rate hike would not be a norm. Thus, it became unlikely for the policy interest rate in the U.S. to be repeatedly raised significantly in the times ahead, giving a sense of relief in the market. However, the future inflation rate is impossible to predict. Depending on the results, market participants could grow cautious about further monetary tightening. This could cause capital outflow from the stock and bond markets, leading the currencies of emerging countries in Asia to depreciate sharply, and this remains to be a potential risk. Furthermore, in Europe as well, the European Central Bank (ECB) announced its plan to raise its policy interest rate by 25 basis points in July, while also mentioning the possibility of an interest rate hike of 50 basis points in September. The ECB is thus taking measures of monetary tightening, and concerns are growing over an economic slowdown resulting from interest rate hikes by major central banks around the world. As a consequence, downward pressure is likely to remain strong on the currencies of Asian countries in the times ahead.

The previously mentioned incoming governor of the central bank of the Philippines, Felipe Medalla, has shared his plan to continue raising the policy interest rate in a gradual manner, even though that would also depend on the economic data. While market participants expect inflation to accelerate, the central bank of the Philippines is seen to be dovish, and this has been weakening the Philippine peso. Furthermore, in response to the re-opening of economic activities, the growing fiscal deficit based on an increase of the trade deficit caused by an increase in imports, as well as measures against the Covid-19 pandemic, is/are likely to be a factor(s) to lead the Philippine peso to depreciate together with the narrowing interest rate differentials between the U.S. and the Philippines, as generated by the monetary tightening measures that are being taken at different rates in these two countries. Therefore, it is likely for the U.S. dollar to appreciate and for the Philippine peso to depreciate in the times ahead.

Junya Tagawa, India Treasury Office, Asia & Oceania Treasury Department

Indian Rupee – July 2022

Expected Ranges **Against the US$: INR 76.00–80.00**
Against the yen: JPY 1.69–1.76

1. Review of the Previous Month

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

The U.S. dollar/Indian rupee exchange market opened trading in June at INR 77.585. Thereafter, speculation spread in the market that Saudi Arabia might increase its oil production in response to a request from the U.S. Some market participants thus sold crude oil in order to take profits, and this led the Indian rupee to appreciate. On June 3, the U.S. dollar/Indian rupee exchange rate reached INR 77.44—the monthly low. Even though the Indian rupee remained stable at the beginning of the month, the Indian monetary authorities intervened in the foreign exchange market before the U.S. dollar/Indian rupee exchange rate reached its all-time high recorded on May 17 (INR 77.80), temporarily weakening the U.S. dollar. However, on June 9, the U.S. dollar/Indian rupee exchange rate exceeded this level.

In the week commencing on June 13, expectations for interest rate hikes in the U.S. grew further, as the Consumer Price Index of the U.S. was announced on Friday of the previous week, local time, revealing a significant rise, to a level higher than expected. In response to such a situation, the U.S. dollar/Indian rupee exchange market opened by exceeding the INR 78 mark on Monday at the beginning of the week, and the exchange rate reached INR 78.285. However, the Indian monetary authorities intervened in the foreign exchange market again, and thus the U.S. dollar/Indian rupee exchange rate did not rise further than the INR 78.10 level. Furthermore, there was mixed anticipation regarding the policy interest rate hikes by the Federal Open Market Committee (FOMC). Before the announcement of the FOMC meeting outcome, the U.S. dollar/Indian rupee exchange rate continued fluctuating within a narrow range without moving in any direction. After attracting substantial attention in the market, the FOMC held its regular meeting, announcing an interest rate hike of 0.75% as well as a downward revision of the growth rate outlook. In reaction, the yields of short-term U.S. government bonds declined. The currencies of Asian countries reacted differently to this event, without leading the market to move in any direction.

In the week commencing on June 20, some pointed to the risk of an economic downturn, as various central banks have been raising their respective policy interest rates. Under such circumstances, concerns grew over a decline of global demand for fuels, and this led crude oil prices to reach their lowest levels in a month. The Indian rupee positively reacted to this, and the U.S. dollar/Indian rupee exchange rate once fell below the INR 78 mark. However, this was only a very short-term trend. On June 22, a sense of uncertainty grew about the global economic growth outlook, and overall risk assets depreciated in the overall Asian region. As a result, the U.S. dollar/Indian rupee exchange rate rose to INR 78.39—renewing the all-June high. The U.S. dollar/Indian rupee exchange rate remained flat thereafter.

In the week commencing on June 27, the minister of energy of the UAE suggested that there was no more option to increase oil production, and this was seen by market participants as a sign that it was impossible for the UAE to intervene the market in order to solve the problem of a lack of supply that has resulted from reduced oil production in Russia. Thus, crude oil prices rose, in response to which the U.S. dollar/Indian rupee exchange rate rose sharply, reaching INR 78.87 on June 28. There were some market participants that bought the U.S. dollar in order to stop further losses, while local importing companies bought the U.S. dollar, as they had not yet taken hedging positions. Thus, the same trend persisted on June 29, and the U.S. dollar/Indian rupee exchange rate rose further to reach INR 78.98. As of the time at which this article was being written, the U.S. dollar/Indian rupee exchange rate was fluctuating at the INR 78.96 level

2. Outlook for This Month

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

First of all, the foreign exchange market intervention by the central bank of India has been an important factor. The central bank of India has explained that there was no specific target rate but that the central bank would intervene in the market when the exchange rate fluctuates violently. Looking back at the trend in the U.S. dollar/Indian rupee exchange market in June, the central bank intervened in the market when the U.S. dollar/Indian rupee exchange rate was approaching the INR 77.80 level. The central bank also intervened in the market on June 29 when the U.S. dollar/Indian rupee exchange rate approached the INR 79 level. In particular, the latter intervention was conducted at a large scale, enough to momentarily invert the bid rate (buyer's rate) and the offer rate (seller's rate). The U.S. dollar/Indian rupee exchange rate rose by 1.76% in the latest month, and by 4.7% from the beginning of April, which can be described as a "violent fluctuation."

However, it is difficult to predict when the central bank will intervene in the foreign exchange market. Some market participants expect market interventions before the U.S. dollar/Indian rupee exchange rate reaches the INR 79.30 level, the INR 79.50 level, or the INR 80.00 level. There are also multiple markets to intervene in, such as the spot exchange market, the forward market, and the NDF market. Recently, the central bank has been frequently intervening in the forward market. As the Indian rupee continues to depreciate significantly, market participants are expecting the central bank to intervene in the spot exchange market, as the impact of such measures can be seen as more efficient. Yet, from this point of view as well, it is difficult to anticipate actions to be taken by the central bank. It can also be said that the current situation of the central bank of India is similar to that of the Bank of Japan, with a large number of political factors. In other words, we need to know what Prime Minister Narendra Modi thinks about the depreciation of the Indian rupee. For all the above reasons, it is difficult to predict the trend in the U.S. dollar/Indian rupee exchange market. However, it can be said that the most-efficient way to control the depreciation of the Indian rupee is market intervention.

Secondly, the trend in the crude oil market is also a very important factor. Thus far, it had been said that most oil-producing countries are at full capacity, and they do not have the means to increase oil production further to respond to an increase in demand, except for Saudi Arabia, the UAE, and Iran. At the end of June, even the UAE suggested that there was no means to increase oil production, and this led to the rise of crude oil prices, seen recently. However, current crude oil prices are much lower than the highs recorded in March and June. Thus, if crude oil prices remain at the current level, the impact of this on the Indian rupee exchange market is likely to be minimal.

Finally, interest rate hikes in the U.S. constitute an important factor. The outlook for this could change in both directions depending on the figures in the key indices in the U.S., such as GDP, employment statistics, and price indices, which are to be forthcoming, as of this writing. However, it should also be reminded that the estimated interest rate hike at the next FOMC meeting has already been seen as high, currently remaining at around 0.7%, according to the U.S. interest rate futures market. Market participants are thus advised to be careful about the possibility for the estimated interest rate hike to fall to 0.5%, rather than rising to 1.0%.

Thus, in July, the U.S. dollar/Indian rupee exchange rate is forecast to remain high. In summary, if crude oil prices remain as they are now, it would not significantly impact the Indian rupee market. Even though market participants are advised to remain cautious about interest rate hikes in the U.S., depending on economic indices, a fall in U.S. interest rates could lead the Indian rupee to appreciate. The rest depends on market interventions by the central bank.