Mizuho Dealer's Eye

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Mizuho Bank, Ltd.

Forex Division

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U.S. Dollar – February 2016

Expected Ranges Against the yen: JPY119.00–125.00

1. Review of the Previous Month

The dollar/yen pair fell to the upper-115 yen mark in January as risk aversion intensified on uncertainty about the direction of the Chinese economy. It then rose to the upper-121 yen level on expectations for further Bank of Japan easing and the introduction of negative interest rates in Japan.

The pair opened 2016 trading at the lower-120 yen mark on January 4. With stocks sliding across the globe on the worse-than-expected results of China's Manufacturing Purchasing Managers Index (PMI) for December, risk aversion increased. The situation was aggravated by growing tension in the Middle East, with the pair subsequently sliding to the lower-117 yen level toward January 7. The U.S. employment data for December was released on January 8. It substantially outperformed market expectations and the pair bounced back to the upper-118 yen mark. This did not lead to a revival of risk sentiments, though, so the pair fell back to the lower-117 yen level.

It then weakened to the upper-116 yen mark during a Tokyo holiday on January 11, but with risk aversion easing following comments by the Chinese authorities, it then strengthened to the 118 yen range for a time. China released some better-than-expected December trade statistics on January 13. As risk aversion eased off, the pair gained to the lower-118 yen level. The dollar was then sold on the results of the Beige Book, though, so the pair fell to the lower-117 yen level toward January 14. It then slid to the mid-116 yen range on January 15 on the weak results of some U.S. economic indicators.

Risk aversion receded on January 18 after the RMB's reference rate was set at a bullish-RMB level, with the dollar/yen pair subsequently gaining to the lower-118 yen mark toward January 19. With the Nikkei 225 average sliding further on January 20, Nikkei 225 futures plummeted on news about a political funding scandal involving Japan's Minister of State for Economic Revitalization Akira Amari. This saw the pair tumbling to a monthly low of 115.97 yen. However, the pair then rose to the upper-117 yen level on January 21 after the euro/dollar pair fell when ECB President Mario Draghi dropped hints about further easing in his press conference after the ECB Governing Council meeting. The dollar/yen pair then gained to the upper-118 yen mark on January 22 on growing speculation about further BOJ easing.

It moved with a heavy topside on January 25 as the dollar was sold by exporters towards the month's end. Chinese stocks crashed on January 26 to dip below August lows, with the pair subsequently dropping to the upper-117 yen level. The greenback was then bought on January 27 in advance of the FOMC meeting, with the pair recovering to the 119 yen range. The FOMC's statement fell within the bounds of market expectations, though, so the impact on pair was muted. On January 29, the BOJ's Monetary Policy Committee (MPC) decided to apply negative interest rates to current deposits. This saw the pair soaring to 121.70 yen to close the month trading at the lower-121 yen mark.

2. Outlook for This Month:

The dollar/yen pair is expected to move firmly in February on widening Japanese/U.S. interest-rate differentials.

In its statement after last month's meeting, the FOMC mentioned how the economy had slowed in the latter half of 2015, though the committee also stressed that labor market conditions continued to improve. The FOMC also predicted that the economy would continue to expand at a moderate pace, with labor market conditions growing tighter. When it came to its interest rate guidance, the FOMC said it expected to lift rates at a gradual pace while monitoring a wide range of data, such as labor market conditions, inflationary expectations, financial markets, and the overseas situation. Since the rate hike in December last year, the monetary policy forecasts of FOMC members have reached a consensus that rates will be lifted four more times in 2016, so providing the risk of a U.S. economic slowdown does not increase, it seems the FOMC will examine the idea of lifting rates again in March. In February, the dollar/yen pair's price will probably be swayed by how likely a further rate hike seems based on key U.S. economic indicators and statements by important figures.

On the other hand, the BOJ's MPC decided to apply negative interest rates to current deposits when it met at the end of last week. In his press conference, meanwhile, BOJ Governor Haruhiko Kuroda said the BOJ would work towards the early realization of its inflation target by making full use of further easing measures implemented in the three dimensions of 'quantity', 'quality' and 'interest rates.' Most market participants were not expecting any new easing measures to emerge from last month's meeting, so the interest rate move came as a surprise. It also suggested the BOJ could implement further easing in future, depending on the circumstances. This seemed to make it harder for investors to engage in speculative yen buying.

Turning to supply and demand trends, and with the end of the Japanese fiscal year looming in March, many Japanese companies are expected to repatriate money by siphoning dividends from overseas subsidiaries. Furthermore, in February many corporations will be setting their in-house rates for the next fiscal year. There will probably be some early hedging by firms concerned about the risk of yen appreciation on uncertainty about the direction of the global economy. These moves are also likely to hold down the dollar/yen pair's topside.

Based on the above, the pair is likely to rise in February in lockstep with widening Japanese/U.S. interest-rate differentials, but with Japanese firms set to buy the yen in the run up to the end of the fiscal year, this rise will probably be muted in nature.

Dealers' Market Forecast

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

Bullish on the dollar (5 bulls: 117.50–125.00, Core: 118.00–124.00)

Kato	118.50 – 123.50	With the introduction of negative interest rates, BOJ Governor Haruhiko Kuroda indicated to the domestic and overseas audience that the BOJ is serious about rousing inflationary expectations, with Kuroda also declaring that the BOJ and the government were on the same page when it came to pushing forward with Abenomics. At the same time, though, negative interest rates could also be described as a kind of drug or poison, so there are doubts about how to appraise the move in the long term.
Takada	118.00 – 124.00	With the BOJ implementing further easing while the FRB remains committed to lifting rates, the dollar is likely to strengthen on the whole on bullish U.S. economic indicators. If risk aversion intensifies on bearish crude oil prices or sliding stocks, though, the yen will likely be pushed higher for a time, though the yen's rise will probably be muted in nature.
Sato	119.00 – 125.00	Now the BOJ has implemented further easing, the dollar/yen pair will probably rise on widening Japanese/U.S. interest-rate differentials. With the end of the fiscal year looming in March, though, Japanese firms will be siphoning up dividends (in other words, repatriating funds). Companies are also expected to move quickly to hedge after setting their in-house rates for the next fiscal year. As a result, the pair is only expected to climb at a modest pace.
Omi	117.50 – 123.50	The dollar/yen pair rose after the BOJ introduced further easing. January also saw some yen appreciation, with the dollar/yen pair temporarily breaching 116 yen as the trend of dollar bullishness was wound back. With the BOJ adopting an aggressive stance towards easing, though, the pair will probably be supported at the 120 yen level.
Nishitani	118.00 – 125.00	The BOJ's MPC surprised the markets by introducing negative interest rates at its meeting last month. As we saw when the ECB introduced negative interest rates, such a move is likely to lead to a certain amount of yen bearishness. From here on, the dollar/yen pair will probably trend higher on expectations for widening Japanese/U.S. interest-rate differentials.

Bearish on the dollar (6 bears: 115.00–123.00, Core: 115.75–122.00)

Fujisaki	116.00 – 123.00	The BOJ pulled a surprise by introducing negative interest rates, though the move will only impact some current deposits, so its impact will be limited. With no end in sight to the China-led wave of global risk aversion, the dollar will probably trade with a heavy topside as market participants revise their expectations with regards to FRB rate hikes.
Yamashita	115.00 – 122.00	With market participants not even expecting the BOJ to lower rates on excess reserves, the introduction of negative interest rates certainly came as a surprise. Nonetheless, the dollar/yen pair only rose by around three yen, so it seems the markets remain wary when it comes to unstable factors such as China and crude oil prices. The pair's topside will probably be capped.
Yano	117.00 – 122.00	Though the BOJ introduced negative interest rates (further easing), the dollar/yen pair is expected to trade with a heavy topside on: growing skepticism about the prospect of further FRB rate hikes; and growing uncertainty about the global economic situation.
Nishijima	115.00 – 122.00	At the end of the January, the BOJ unexpectedly introduced negative interest rates. This seemed to revive the trend of yen bearishness, but the risk of a global downswing continues to smolder away on the ongoing slide in crude oil prices and the situation in China. Under these circumstances, it is hard to imagine the dollar/yen pair rising further. With market participants expecting the FRB to hike rates at a slower pace, the pair is expected to continue trading with a heavy topside.
Shimoyama	116.00 – 123.00	The BOJ introduced negative rates last month while indicating it had room to lower rates further. This seems to have done away with the sense that BOJ policy had reached a standstill. If the BOJ goes too far, though, this will probably lead to monetary tightening. In the end, the dollar/yen pair's topside will grow gradually heavier as market participants focus on the limits to BOJ policy, with the topside also weighed down by deteriorating global

		risk sentiments and the possibility of the FRB easing up on the pace of rate hikes.
Moriya	115.50 – 122.00	The BOJ unexpectedly decided to introduce negative interest rates. This was a momentous decision, so the dollar/yen pair soared after the announcement, though it is unclear what impact this move will have. There remain concerns about the stock markets and crude oil movements. With expectations for further FRB rate hikes easing off, the dollar/yen pair's topside is likely to grow gradually heavier.

Masashi Sakamoto, Forex Sales, Forex Division

Euro – February 2016

Expected Ranges **Against the US$: US$1.0300–1.1000**
Against the yen: JPY126.00–133.00

1. Review of the Previous Month

In January, the euro moved without a clear sense of direction between $1.07–1.09 against the dollar and 126–132 yen against the Japanese unit.

It opened the month trading at the mid-$1.08 mark and the mid-130 yen level. The greenback was then bought after: trading was suspending on Chinese stock markets after circuit breakers were activated; the People's Bank of China (PBOC) set the RMB's reference rate at its lowest level for four years and seven months; and the U.S. Department of Justice (DOJ) filed a civil suit against a large German carmaker in a federal court for cheating on emissions tests, with the DOJ seeking reparations of up to two trillion yen. All this saw the euro/dollar pair falling to a monthly low of $1.0711. However, the minutes to the FOMC meeting were released on January 6 and these were not as hawkish as expected, so the euro bounced back. The pair strengthened to the mid-$1.09 mark on January 7.

The euro opened the week beginning January 11 trading at the lower-$1.09 mark and around 128 yen against its U.S. and Japanese counterparts, respectively. The euro/dollar pair then fell to the mid-$1.08 level. However, risk aversion then intensified after crude oil prices dropped below $30, so investors unwound their euro short positions and the pair rose to the upper-$1.08 mark. The pair then hit a monthly high of $1.0985 on January 15 following news that ECB Governing Council members had voiced doubts about the possibility of further easing in the near future.

The euro/dollar opened the week beginning January 18 at the lower-$1.09 mark, while the euro/yen pair kicked off trading at the mid-127 yen level. On January 19, the euro/dollar pair fell to the mid-$1.08 level after the German ruling party's approval rating dropped to its lowest level since 2013. With investors then unwinding their euro short positions on sliding crude oil prices, the pair rose to the upper-$1.09 mark. However, in his press conference after the January 21 ECB Governing Council, ECB President Mario Draghi dropped some strong hints about the possibility of further easing in March, with Draghi saying that 'as we start the new year, downside risks have increased again, [so the ECB might] reconsider our monetary policy stance at our next meeting in early March.' This saw the currency pair crashing to the upper-$1.07 level. Furthermore, with the euro/dollar pair sliding on the back of a statement by Draghi on January 22, the euro/yen pair followed suit to hit a monthly low of 126.17 yen.

The euro/dollar pair opened the week beginning January 25 trading around the $1.08 mark, with the euro/yen pair starting the week at the lower-128 yen mark. The FOMC statement was released on

January 27. Though it did not rule out the possibility of a March rate hike, the euro/dollar pair nonetheless rallied to the upper-$1.09 mark as market participants tried to pare back the previous week's losses. The dollar/yen pair then soared after the Bank of Japan unexpectedly announced some easing on January 29. The euro/yen pair was also dragged higher to hit a monthly high of 132.45 yen before closing the month at the lower-131 yen mark. The impact on the euro/dollar pair was muted, though, with the pair finishing the month at the mid-$1.08 mark.

2. Outlook for This Month:

The euro is expected to continue moving without a sense of direction in February, though it will probably trade with a heavy topside.

The ECB did not shift policy at the closely-watched Governing Council meeting in January. In his press conference after the meeting, though, ECB President Mario Draghi voiced concerns that the low inflation plaguing Europe could drag on into the long term. He also said the ECB would need to revise or re-examine its monetary policy stance at the March Governing Council meeting. In a subsequent speech in Germany, meanwhile, Draghi said that although there were concerns in some quarters that low interest rates might lead to asset bubbles, 'there are no warning signs of serious financial instability.' All this leaves the impression that Draghi is adopting a positive stance with regards to the implementation of further easing at the March meeting. When Draghi dropped hints about easing at the October 22 Governing Council meeting last year, expectations for such a move ballooned in the markets in the run up to the December meeting. The euro was then bought back sharply after the easing announced at the December meeting fell short of these expectations. This turn of events still remains fresh in the minds of investors. As a result, this time around the euro is unlikely to be sold off as much in the wake of Draghi's comments. However, with market participants focusing on speculation about easing, it is hard to imagine the euro being bought aggressively.

Turning to the U.S., meanwhile, and the FOMC's announcement (released January 27) refused to rule out the possibility of a March rate hike. Whether it does hike rates or not will depend on the results of U.S. economic indicators released from here on, but FOMC members have nonetheless left the door open for a March rate hike, so this will probably act to cap the euro/dollar pair's topside.

Recently, though, the euro has tended to appreciate during phases of risk aversion as investors unwind their euro short positions. This trend was seen when crude oil prices fell last month, for example. It seems crude oil prices stopped sliding late January due to speculation that OPEC and Russia would meet to discuss curtailing output, but the situation remains unpredictable. If the discussions do not go ahead or are broken off, crude oil prices could fall further, with the euro being bought back as a result.

With an ECB Governing Council meeting and an FOMC meeting looming in March, though, it will be hard to discern a clear sense of direction for the single currency. There is a possibility the meetings could see the ECB implementing further easing and the FRB lifting rates, so the euro's topside is likely to be weighed down on the whole.

Dealers' Market Forecast

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

Bullish on the euro (4 bulls: 1.0700–1.1500, Core: 1.0725–1.1325)

Fujisaki	1.0700 – 1.1500	The ECB will have difficulties forming a consensus about further easing. Amid concerns about the markets tilting toward risk aversion and U.S. manufacturers being hit hard by the strong dollar, speculation is rife that the U.S. will keep a lid on any further rate hikes. The euro is expected to rally as speculators throng to close out their euro short positions.
Yano	1.0800 – 1.1200	With the ECB expected to implement more easing in March, the euro is unlikely to see any active buying. However, with crude oil prices levelling off, excessive concerns about a decline in the expected inflation rate are wearing off. This trend will probably support the single currency, as will market doubts about the prospect of U.S. rate hikes.
Omi	1.0750 – 1.1250	The euro is likely to continue moving firmly. Furthermore, with the BOJ introducing negative interest rates, the euro/yen pair will find it easy to maintain the 130 yen level. With the BOJ easing move aggressively, the euro will be bought on several occasions as investors compare the stances of the BOJ and the ECB.
Shimoyama	1.0700 – 1.1400	It seems the euro is growing firmer. Expectations for further ECB easing are declining on internal discord at the bank, while expectations for further U.S. rate hikes are also dropping off. Until now, the eurozone's huge current account surplus has been pushed down by speculation about monetary policy, but it seems this trend is starting to shift.

Bearish on the euro (7 bears: 1.0400–1.1100, Core: 1.0500–1.1100)

Kato	1.0400 – 1.1100	The overall trend is likely to remain one of euro bearishness. It seems crude oil prices are on the verge of bottoming out, though. If this does happen, there may be some adjustment to piled-up euro short positions.
Yamashita	1.0400 – 1.1100	Though the eurozone economy has improved on the back of the weak euro, these gains are being undermined by the Chinese economic slowdown. ECB President Mario Draghi's recent hints about further easing in March are based on the ECB's recent tactic of 'giving prior notice and then changing policy.' The euro is expected to trend downwards on expectations for further ECB easing.
Takada	1.0600 – 1.1100	The euro is expected to move bearishly on expectations for further ECB easing. The euro will probably be sold on comments by ECB officials together with a decline in the expected inflation rate due to sliding crude oil prices. However, euro short positions have also accumulated to high levels, so the single currency's downside will be capped.
Sato	1.0500 – 1.1000	With the ECB giving prior notice of further easing at the March Governing Council meeting, February is likely to see investors focusing on comments by ECB officials about the details of the next easing package. The euro is expected to move with a heavy topside on these expectations for further easing.
Nishijima	1.0500 – 1.1100	If crude oil prices slide further or the situation in China deteriorates, for example, the euro will rise for a time on risk-evasive short covering. However, the single currency will be weighed down by speculation about the further easing package that ECB President Mario Draghi hinted at in his press conference at the last Governing Council meeting, so investors will try to test the unit's lower price on several occasions.
Nishitani	1.0600 – 1.1100	Market participants should be on full alert to the possibility of the euro being bought back sharply due to position adjustments during phases of risk aversion. However, with the ECB indicating it will re-examine its monetary policy at the March Governing Council meeting, the main trend is likely to remain one of euro bearishness.
Moriya	1.0500 – 1.1100	The euro is expected to slide as investors focus on the possibility of further easing in March. The single currency has moved firmly since the January Governing Council meeting, but as we saw before the December meeting, the euro is likely to be sold at times on specific news or comments by ECB officials about further easing.

Hidetoshi Honda, Europe Treasury Division

British Pound – February 2016

Expected Ranges	**Against the US$:**	**US$1.4200–1.4800**
	Against the yen:	**JPY169.00–175.00**

1. Review of the Previous Month

The pound continued to slide in January. It moved bearishly against all the major currencies. On January 21, for example, it fell to $1.4080, its lowest level against the dollar in just under seven years. It also hit a two-year low of 163.99 yen against the yen and a one-year low of GBP0.7756 against the euro on January 20.

It was the pound/yen pair that took the lead when it came to sterling's precipitous decline. The yen moved bullishly across the board entering 2016. This was down to a rise in risk aversion as global stocks and crude oil prices fell on growing concerns in the financial markets about a Chinese economic slowdown. Funds connected to a Middle Eastern oil-producing government moved to sell off sterling-denominated assets and this seemed to prompt the pound's slide against the yen in particular. With crude oil prices falling to their lowest levels in over 12 years, it appears Middle Eastern investors who had ploughed money into British assets now moved to sell these assets in order to help plug fiscal deficits back home (ensure ready liquidity). Rumors of similar moves first emerged in September last year, but it seems investors grew more cognizant of them this time as the possibility emerged that a state-owned Saudi-Arabian oil field might be put up for an IPO. On January 19, meanwhile, BOE Governor Mark Carney commented that 'now is not yet the time to raise interest rates.' This comment came just after the same-day announcement that the UK core CPI data for December had swung clearly above expectations (+1.4% year-on-year as opposed to forecasts for a +1.2% y-o-y rise), so the comment seemed to have a particularly hard impact on sterling's movements. Furthermore, on January 26 Carney hinted that the BOE's Financial Policy Committee (FPC) could lift the countercyclical capital buffer (CCB) rate when it meets in March. This also seemed to suggest the BOE was prepared to use not only interest rates but also macroprudential regulations to rein in asset-price bubbles. As such, this statement was similar in nature to Carney's earlier dismissive comment about rate hikes.

However, sterling bottomed out around this time and began rising again. This move was also unconnected to any UK-related factors. Rather, it seems the pound was pulled upwards when crude oil prices hit bottom and started rallying. The rally in crude oil prices was prompted in large part by comments by ECB President Mario Draghi on January 21 that the ECB Governing Council could implement further easing when it met in March. There was also growing speculation around this time that the Bank of Japan's Monetary Policy Committee (MPC) would loosen policy further when it met on January 29. These expectations for further easing by the major central banks helped push stocks higher across the globe. It seems this also helped crude oil prices to bounce back.

A number of UK economic indicators were released during this time. These included the aforementioned upswing in the core CPI data for December. Several weak results also caught the eye, including the manufacturing and industrial production figures for November (released January 12), the average wages data for September–November (released January 20), and the retail sales data for December (released January 22). In general, BOE officials also adopted a negative stance overall when it came to lifting rates. MPC member Martin Weale did make some positive noises about an early rate hike on January 21, but MPC members Gertjan Vlieghe and Kristin Forbes both voiced caution about the idea of commencing rate hikes (on January 18 and January 25, respectively). However, with the eyes of the financial markets focused on the movements of crude oil prices, these results and comments did not seem to have any particularly strong impact on the pound.

2. Outlook for This Month:

The pound is likely to move firmly in February provided global stocks and crude oil prices bounce back. Concerns about a Chinese economic slowdown seemed to be the primary factor driving stocks and crude oil prices lower entering 2016, but the Chinese economy has been growing at a fast pace for some time now, so even though the economy is slowing, real GDP growth is still expected to hit +6.3% y-o-y (according to an IMF forecast made on January 19, 2016). The RMB's recent depreciation also suggests that China's (dollar-denominated) total demand is continuing to expand. It seems somewhat strange that global stocks and crude oil prices have fallen so sharply recently because strong growth hasn't been expected so much for China while it's been long since the markets started hearing talk about a Chinese economic slowdown . It has grown clear that U.S. domestic crude oil production (shale) and Russian crude oil output have fallen since the latter half of 2015. Expectations for a resurgence in crude oil supplies from Iran also appear overly optimistic. In other words, the recent slide in crude oil prices seems somewhat excessive from both a supply and a demand perspective, so it is quite possible that prices were pushed down because speculative movements outweighed supply and demand factors. Nonetheless, the BOE's lack of resolve seems to be one reason why the pound is not expected to move that bullishly going forward. The policy of using macroprudential regulations rather than monetary measures (= rate hikes) to keep asset bubbles in check had been one the BOE actively espoused before the Mansion House speech in June 2014, when BOE Governor Mark Carney stated that a rate hike 'could happen sooner than markets currently expect.' The speech was followed by 18 months of the BOE adopting a more hawkish stance than necessary (Carney suddenly put the markets on alert to the prospects of an early rate hike in July 2015 too), so even though Carney has now declared that the BOE is tilting back in the direction of macroprudential regulations, it is hard to gauge what he really means. If crude oil prices rally from here on, as expected, this could well push sterling higher in two ways. Firstly, speculators who jumped on the bandwagon of pound selling by Middle Eastern investors may liquidate their pound short positions. Secondly, rising prices may lead to rising expectations for a BOE rate hike. It is hard to imagine the latter occurring at this moment in time, though.

In February, market participants should also keep a close watch on the February 18–19 EU Heads of State meeting. Details of the EU reforms sought by the UK government will have been hammered out by then, so depending on the results of negotiations, the UK may well set a date for its referendum on whether to remain in the EU or not. This month's Heads of State meeting is unlikely to see any major concessions capable of pulling UK public opinion in the direction of staying in the EU, so the UK will probably push back the timing of the referendum (which currently seems set for June onwards this year). If the UK decides prematurely on a date for the referendum, this could lead to considerable uncertainty in the near future, with sterling likely to be weighed down heavily as a result.

Miki Yamaguchi, Sydney Branch

Australian Dollar – February 2016

Expected Ranges	**Against the US$:**	**US$0.6700–0.7250**
	Against the yen:	**JPY83.00–88.00**

1. Review of the Previous Month

In January the AUD/USD pair hit a seven-year low of US$0.6827.

The pair opened the month trading right around US$0.73 on January 4. However, Shanghai stocks then fell on deep-rooted concerns about a Chinese economic slowdown. With stocks sliding across the globe, the pair crashed to the mid-US$0.71 level. A risk-off mood prevailed on January 6 as the markets reacted badly to news that North Korea had carried out a nuclear test. The pair fell to the mid-US$0.70 mark during this time. With the RMB falling further and Chinese stocks plummeting, risk-evasive moves ramped up and the pair weakened to the US$0.69 range. The U.S. employment data for December was released on January 8. Nonfarm payrolls were up by 292,000, an improvement on forecasts for a rise in the region of 200,000. The greenback was subsequently bought and the currency pair moved bearishly at the US$0.69 level. The Australian employment data for December was released on January 14. The number of employees was down by 10,000, but this was broadly in line with market expectations, so the impact on the currency markets was muted. The pair then hit a seven-year low of US$0.6827 on January 15 as major global stock markets fell and crude oil dropped below US$30.

With stocks sliding as concerns about a Chinese economic slowdown increased in the first half of the month, the AUD/USD pair moved flatly at the US$0.68 level. The Chinese GDP data for October–December was released on January 19. At +6.8% y-o-y, the result was broadly in line with market expectations, so the impact on the Australian unit was negligible, with the currency pair moving in a range between the mid-US$0.68 mark and the lower-US$0.69 level. However, in his press conference after the ECB Governing Council meeting on January 21, ECB President Mario Draghi dropped hints about further easing at the next meeting in March. European stocks began climbing as a result and global stock markets followed suit. The pair rallied to the US$0.70 mark during this time. On January 26, Shanghai stocks plunged by over 6.4% compared to the previous day. The currency pair also dropped back to the lower-US$0.69 mark for a time, though it returned to the US$0.70 level after a round of selling. The Australian CPI data for October–December was announced on January 27. The data was up 0.4% on the previous quarter and 1.7% on the previous year (forecast: +0.3%/+1.6%). As a result, expectations for further easing by the Reserve Bank of Australia (RBA) dropped off. With crude oil prices also rising, the AUD/USD pair gained to the upper-US$0.70 mark. With crude oil prices hitting a three-week high and the December U.S. durable goods orders indicator falling to its lowest level since August 2014, the pair rose to the lower-US$0.71 mark for a time on January 28. At the end of the month, the Bank of Japan (BOJ) surprised the markets with a decision to introduce negative interest rates. With the Nikkei 225 average rising by 500 yen, risk appetite increased and the pair shot up to a high of US$0.7142. It then fell slightly to close the month at the upper-US$0.70 level.

2. Outlook for This Month:

Investors may continue to test the AUD/USD pair's downside in February. Attention will be focused on the movements of commodity prices.

The Australian CPI data for October–December was up 0.4% on the previous quarter and 1.7% on the previous year (forecast: +0.3%/+1.6%). The core inflation rate (= (trimmed mean + weighted median) ÷2) is an indicator that the RBA keeps a close eye on when implementing policy. The indicator was up an average of 0.55% on the previous quarter and 2.0% on the previous year. Though this represented the rate's lowest level for around four years, it still remained at the lower bound of the RBA's inflation target range (2–3%). With the Australian jobs data also substantially beating forecasts in both October and November, it seems the RBA's two rate cuts last year have done a good job, with the Australian labor market now moving firmly. In November, meanwhile, RBA Governor Glenn Stevens expressed the opinion that policy rate cuts would not have the stimulatory impact they once had, with Stevens also voicing doubts about whether further easing was the most effective way to support the economy. Based on the above, it seems the RBA will keep monetary policy unchanged for a while.

Turning to the U.S. meanwhile, and according to the federal funds rate projections (the dot chart) released last December, FOMC members are expecting rates to be lifted four times in 2016. There are eight FOMC meetings penciled in for this year, so with the FOMC deciding not to lift rates in January, market participants will now be watching closely to see whether the FOMC makes such a move at its March meeting. Judging from the FF rate futures market, investors believe there is a roughly 30% chance of the FOMC lifting rates in March.

Based on above, if the RBA leaves monetary policy fixed and the FRB also leaves monetary policy unchanged in February in advance of the March FOMC meeting, then monetary policy in both countries is unlikely to have much of an impact on the AUD/USD pair this month.

However, commodity prices have fallen at a faster pace entering 2016. The NY crude oil futures indicator fell particularly sharply, from US$38 to US$28 (down 26%). Iron ore and coal, two major Australian exports, have only fallen slightly, but the Commodity Research Bureau's composite commodities index has fallen by 15%. Crude oil prices bounced back slightly at the end of January on speculation that suppliers would adjust their output targets, but amid deep-rooted concerns about an economic slowdown in China and other demand-side countries, it seems commodity prices will continue to move bearishly. The Australian dollar is a commodity currency, so it will probably be susceptible to downward pressure.

Key Australian events and indicators to watch in February include the RBA board meeting (February 2), the trade balance (February 3), the retail sales data and the RBA's Quarterly Statement on Monetary Policy (February 5), and the employment data (February 18).

Katsuhiko Takahashi, Americas Treasury Division

Canadian Dollar – February 2016

Expected Ranges	**Against the US$:**	**C$1.3825–1.4800**
	Against the yen:	**JPY82.00–89.00**

1. Review of the Previous Month

The U.S. dollar was bought at the start of the month as crude oil prices tested new lows while uncertainty about the Chinese economy swept the markets. Commodity currencies were sold during this time, with the USD/CAD pair rising to the psychologically important C$1.40 level. Canada's employment data for December was released on January 8. The number of people in work had risen by 22,800. This was 10,000 more than expected and the Canadian unit was bought for a time on this firm result. There was also strong appetite to sell the unit back, though, so the pair continued to have its downside tested. Crude oil prices continued sliding to drop below US$30, while the Bank of Canada's Business Outlook Survey also pointed to a clear deterioration in sentiments. This led to growing concerns about the Canadian economy, with the pair subsequently soaring to C$1.4660.

The Canadian unit continued to move bearishly mid-January, with the pair temporarily rising to C$1.4690. The Bank of Canada's policy board met during this time. Around half the market was expecting the policy rate to be lowered, but in the end the board kept the rate fixed at 0.50%. The accompanying statement also struck a more bullish tone than the markets had expected. Though the GDP forecast was downgraded, the board said the impact of sliding crude oil prices would start to peak out in the middle of the year, with the government also expected to introduce some fiscal stimulus. With the board also pointing to the strength of non-energy exports, the tone of the statement was essentially unchanged on previous statements and was not as dovish as the markets had expected. The Canadian dollar was bought back sharply as a result, with the USD/CAD pair falling to C$1.4492. However, crude oil prices then fell to the lower-US$26 range, their lowest level in 12 years and 8 months. As cautiousness swept the markets, risk aversion intensified and the pair rose to the mid-C$1.46 mark again.

Risk aversion dropped off sharply late January on expectations for further ECB easing and news that China would actively participate in solving the problems of the Middle East. With the crude oil markets swept by short covering, the Canadian unit was also bought back, with the currency pair weakening to the C$1.4115.

2. Outlook for This Month:

The markets have faced turbulence since the start of the year, with risk aversion growing stronger as factors like the situation in China/the Middle East and sliding crude oil prices spilled over into 2016 too. The Chinese economy is slowing, with Chinese stocks also falling. China's growth rate could well fall sharply going forward and this could lead to stalling growth across the globe. Uncertainty about the geopolitical situation is also unlikely to ease off any time soon, so the market recovery will probably be quite sluggish. At the same time, crude oil and other energy costs are sliding sharply and there are also growing concerns about oversupply once sanctions on Iran are lifted. Under these circumstances, though short-term selling has dropped off for now, crude oil prices may remain bearish for a prolonged period. Falling energy costs are putting pressure on the results of Canada's commodity industries. Many observers believe this could lead to a worsening jobs environment. There are also deep-rooted expectations for a further rate cut by the Bank of Canada. All this suggests the Canadian unit will remain susceptible to selling in February.

Shimon Yoshida, Seoul Treasury Department

Korean Won – February 2016

Expected Ranges	**Against the US$:**	**KRW1,185–1,225**
	Against the yen:	**JPY9.72–10.20 (KRW100)**
		(KRW9.80–10.29)

1. Review of the Previous Month

The USD/KRW pair renewed a five-year high in January.

The pair strengthened at the start of the month. It opened the month trading at KRW1178.0 on January 4. It then rose sharply as risk sentiments deteriorated on instability in the Middle East and plummeting Chinese stock markets. It topped the crucial KRW1200 mark on January 7 following news that North Korea had tested a hydrogen bomb. Concerns of an intervention by the authorities then increased. With the People's Bank of China (PBOC) also setting the RMB's reference rate at its highest level for nine business days, the pair's gains were pared back for a time, with the pair trading just below KRW1200 in the run up to the release of the U.S. employment data for December.

The pair renewed a five-year high mid-January. The U.S. released some bullish employment data for December on January 8, with the pair subsequently hitting a five-year high on January 11. Geopolitical risk then intensified after the U.S. stationed some B52 bombers in South Korea to counter any threat from Pyongyang. The pair's upwards momentum was also boosted when WTI crude oil prices dropped below the key $30 mark. However, with investors also on guard against an intervention in the currency markets by the authorities, the pair then moved with a heavy topside. The Bank of Korea's Monetary Policy Committee (MPC) met on January 14. It kept monetary policy unchanged, as expected. The MPC also downgraded its economic growth forecast for 2016 to +3.0% (it stood at +3.2% in October) and its inflation forecast for 2016 to +1.4% (as opposed to +1.7% in October). This was within the bounds of market expectations, though, so the impact on the currency pair was limited.

The pair's climb was pared back slightly at the end of the month. After the ECB Governing Council meeting on January 21, ECB President Mario Draghi dropped hints that the ECB could ease further at the March meeting. As risk sentiments improved, the pair fell to KRW1190. The FOMC then voiced concerns about the global economy, while the Bank of Japan announced a new package of quantitative and qualitative easing, including the introduction of negative interest rates. All this saw the pair rallying to KRW1200 for a time, but in the end it finished the month trading at KRW1199.1, up 26.6 won on the end of December.

2. Outlook for This Month:

The USD/KRW pair is expected to trade at a standstill at highs in February.

With crude oil prices showing no signs of bottoming out and the markets swept with uncertainty with regards to the Chinese economy, the pair renewed a five-year high in January. Most Chinese economic indicators released last month performed bearishly. Judging by this, and by comments from oil-producing nations, it seems risk-off sentiments are likely to remain in place for the time being. Furthermore, with North Korea announcing it had successfully tested a hydrogen bomb, geopolitical risk has increased and this is also hitting risk sentiments. Under these circumstances, the currency pair is expected to have its topside tested in February.

At the same time, concerns of currency market interventions have sometimes grown when market participants have tested the pair's topside in the past. Though the authorities have not made any particular comments about the pair's current level, it will probably implement some smoothing operations in the event of any sharp fluctuations, so the markets will remain on high alert. Furthermore, though the Bank of Korea downgraded its economic growth forecast, the BOK governor's press conference seemed quite hawkish on the whole. As a result, expectations for a BOK rate cut have eased off slightly and this is also likely to weigh down the pair's movements.

Junji Tsujino, Taipei Treasury Department

New Taiwan Dollar – February 2016

Expected Ranges	**Against the US$:**	**NT$32.75–34.00**
	Against the yen:	**JPY3.51–3.75**

1. Review of the Previous Month

The USD/TWD pair weakened slightly in January.

The pair kicked off the month trading around TWD32.90. Risk aversion shot up from the start of the year as Shanghai stocks and the RMB fell sharply. During this time, the pair strengthened to around TWD33.00. With North Korea conducting a nuclear test and geopolitical risk also increasing in the Middle East, the markets remained turbulent, with the pair continuing to rise to hit TWD33.10 on January 5, TWD33.20 on January 6 and around TWD33.30 on January 7. It moved around TWD33.30 on January 8 as composure returned to the Shanghai stock market.

The U.S. posted some bullish employment data for December, while Taiwan released some bearish trade statistics for December. As a result, the pair gained to around TWD33.40 the following week, on January 11.With the RMB bouncing back over January 12–13, market sentiments improved slightly. The Taiwan unit's rally was muted though, with the pair deadlocked around TWD33.40. Risk aversion then flared up again, though, while Taiwanese stocks were sold on balance by overseas investors in the run up to the Taiwan general election. As a result, the pair strengthened to hit TWD33.50 on January 14 and around TWD33.60 on January 15. The pair swung to and fro around TWD33.60 on January 18. The pair did not seem to be particularly impacted by the general election. Though the release of several Chinese economic indicators passed by smoothly, Taiwanese exporters remained locked in wait-and-see mode, so the Taiwan unit moved bearishly and the currency pair traded around TWD33.70. As various stock markets fell across the globe, the Taiwan unit remained bearish over January 20–21, with the pair approaching TWD33.80 for a time. Expectations for ECB easing rose on January 21 following a press conference by ECB President Mario Draghi. As risk aversion eased off, the pair dropped down to around TWD33.60 on January 22.

Market sentiments continued to improve on January 25, with the Taiwan dollar edging up to the lower-TWD33.50 mark. Crude oil prices and other risky assets then moved bearishly, though. With the FOMC and the Bank of Japan's Monetary Policy Committee (MPC) also set to meet, market sentiments dropped back, with the Taiwan dollar edging lower and the currency pair trading around TWD33.60 over January 26–27. The FOMC's statement was released on January 27. The greenback fell slightly as a result, but the Taiwan dollar's reaction was muted, so the pair continued to move around TWD33.60 on January 28. The Taiwan unit appreciated on January 29 as the U.S. dollar fell further and Taiwanese stocks began rising. Stocks rose even higher after the BOJ introduced some new easing measures, with the Taiwan dollar growing more bullish during afternoon trading. The pair moved erratically to hit TWD33.20 at one point. In the end, it finished the day trading at the upper-TWD33.30 level. January 30 was a Saturday trading day. With the U.S. dollar moving bullishly the previous day, the pair edged up to TWD33.40.

2. Outlook for This Month:

The Taiwan dollar is expected to gain slightly on its U.S. counterpart in February.

With exports and imports both falling sharply, Taiwan's December trade surplus (expressed in US$) remained more-or-less at the same level as the previous year. The trade balance for the year as a whole was 30% up on the previous year. December's CPI data remained in positive territories for the fourth successive month, though the pace of inflation eased off as composure returned to soaring fresh food prices. GDP in the fourth quarter of 2015 was down 0.28% on the previous year. Though GDP dipped into negative territories, the result still beat market expectations. Export orders and industrial production remained in the doldrums, though, while the unemployment rate also edged upwards, so judging from the economic statistics, it seems there is still no signs of an uptick.

The Taiwan unit's movements in February will depend on the movements of its U.S. counterpart. There remain concerns about the Chinese economy and uncertainty about crude oil prices and so on, so although market sentiments rallied after the Bank of Japan announced some new easing, investors will need to watch closely to see whether sentiments continue to improve. Provided risk aversion does not rise sharply, the Taiwan unit's direction will probably be shaped by U.S. dollar movements in the wake of forecasts about U.S. monetary policy. As for Taiwan's monetary policy outlook, though the fourth quarter GDP beat market expectations, it fell into negative territories. Based on this, it seems market participants have already factored in a March rate cut to a certain extent, so the uncertain factor will be U.S. monetary policy. With a number of U.S. economic indicators released last month falling below market expectations, the U.S. dollar seems to lack upwards momentum. Taiwan dollar bearishness is not prompted by the greenback's relative strength against the euro or yen, for example, but by the U.S. dollar's absolute strength on the back of growing expectations for U.S. rate hikes following the release of bullish U.S. economic indicators. At this moment in time, though, it is hard to state with any conviction that this turn of events will occur again. The Taiwan dollar is expected to strengthen slightly as it pares back its January losses.

A glance at the Taiwan dollar's movements around the Chinese New Year holidays from 2006 to 2015 reveals no particular trends, with the unit strengthening on four occasions, weakening twice and staying more-or-less unchanged (movements of TWD0.05 or less) four times. This year, though, the holidays will take place from the first business day after the release of the U.S. employment data for January. If the data turns out to be bearish and has a strong impact on expectations for a March U.S. rate hike, this is likely to lead to some substantial currency movements. However, with the Chinese mainland also on holiday over this time, there is unlikely to be any risky events emanating from China. This will probably act as a stabilizing factor for the Taiwanese unit.

Ken Cheung, Hong Kong Treasury Division

Hong Kong Dollar – February 2016

Expected Ranges	**Against the US$:**	**HK$ 7.7700–7.8300**
	Against the yen:	**JPY 15.20–15.80**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in January

In January, the Hong Kong dollar weakened at the beginning of the month due to the FRB's decision to raise the interest rate. The depreciation of the Hong Kong dollar accelerated in the middle of January, momentarily reaching HKD 7.82 to the U.S. dollar for the first time since the financial crisis in 2008. While market participants expected the Hong Kong dollar to weaken further in the times ahead along with the depreciation of the Chinese yuan, concerns over an economic slowdown and capital outflow in China affected Hong Kong as well, leading the benchmark Hang Seng Index to fall below the 20,000 mark. Furthermore, the one-year forward point for the Hong Kong dollar reached 800, and the one-year forward rate for the Hong Kong dollar fell below HKD 7.85 to the U.S. dollar—the lowest end of the fluctuation band under the U.S. dollar peg system. It can be said the recent depreciation of the Hong Kong dollar demonstrates growing concerns over capital outflow in the Hong Kong market, in which investment funds are flowing out of Hong Kong in the stock market as well as in the real estate market.

Hong Kong dollar interest rate market in January

In January, the Aggregate Balance (the sum of the balances in the clearing accounts maintained by banks with the Hong Kong Monetary Authority [HKMA]) that shows that the level of short-term interbank liquidity remained high at HKD 370 billion. However, the Hong Kong dollar interest rates appreciated sharply due to concerns over capital outflow that resulted from the recent depreciation of the Hong Kong dollar. The three-month HIBOR exceeded 0.5% within several days. The interest rate spread between the U.S. dollar and the Hong Kong dollar has also narrowed significantly. In addition, the HIBOR-LIBOR basis swap rate also appreciated temporarily, suggesting that fund procurement costs for the Hong Kong dollar will increase in the long run.

Hong Kong stock market in January

The benchmark Hang Seng Index fell below 20,000 and continued falling rapidly below the 19,000-point level. Since the beginning of 2016, the stock market has been facing various risk factors, such as the depreciation of the crude oil price, concerns over an economic slowdown in China, and market reforms. Furthermore, the Hong Kong dollar has been weakening due to capital outflow, while Hong Kong dollar interest rates are appreciating. These factors have also been strengthening downward pressure on Hong Kong stock prices.

2. Outlook for This Month:

Hong Kong dollar spot exchange market in February

Market participants were encouraged to sell the Hong Kong dollar due to uncertainty regarding the Chinese economy. However, given the amount of foreign currency reserves at the HKMA (USD 358.8 billion), it is unlikely for the exchange rate to move out of the U.S. dollar peg system in the short term. Nevertheless, it is true that concerns over capital outflow have been keeping the Hong Kong dollar weak, and it is therefore possible for the U.S. dollar/Hong Kong dollar exchange rate to temporarily approach HKD 7.85, the lower end of the fluctuation band under the U.S. dollar peg system. As long as the Chinese economy remains stagnant, downward pressure is likely to remain on the Hong Kong dollar. The U.S. dollar/Hong Kong dollar exchange rate is thus expected to remain at around HKD 7.8 for a while.

Hong Kong dollar interest rate market in February

If the U.S. dollar/Hong Kong dollar exchange rate moves out of the U.S. dollar peg system with the lower end of the fluctuation band at HKD 7.85, the HKMA is likely to intervene in the market by buying the Hong Kong dollar in order to keep the peg system. If that happens, the level of liquidity in the Hong Kong dollar market would fall, leading the Hong Kong dollar interest rates to follow the trend by appreciating. Thus, the Hong Kong dollar interest rates are expected to appreciate further, and the Hong Kong dollar three-month HIBOR is expected to follow the U.S. dollar three-month LIBOR. However, as the level of liquidity remains high, there are only limited risks regarding the sharp appreciation of HIBOR. With regard to long-term basis swap rates, on the other hand, the HIBOR-LIBOR basis swap rate (Hi-Li) is expected to remain high due to concerns over capital outflow as well as the abolition of the U.S. dollar peg system.

So Ouchi, Treasury Division, MHBK (China)

Chinese Yuan – February 2016

Expected Ranges	**Against the US$:**	**CNY 6.4600–6.9000**
	Against the yen:	**JPY 16.81–19.22**
	Against 100 yen:	**CNY 5.2000–5.7900**

1. Review of the Previous Month

Foreign exchange market

From January 4, the trading hours in the inter-bank foreign exchange market were extended (until 23:30). At the beginning of the year, the People's Bank of China (PBOC) central parity rate for the U.S. dollar/Chinese yuan pair continued renewing the low for the Chinese yuan every day. In the trading market, the Chinese yuan reached the lowest level in approximately five years. Given the weakening of the Chinese yuan with the PBOC central parity rate, the Chinese yuan also depreciated in the offshore market. On January 7, the gap between the onshore market rate and the offshore market rate widened to 1,600 pips. However, on January 12, the overnight CNH_HIBOR rate was set at 66.815% (annual rate), rapidly lowering the level of liquidity in the onshore Chinese yuan market. Market participants saw this as a strategy to warn those with Chinese yuan-selling positions by keeping the offshore Chinese yuan interest rates high while keeping the level of liquidity low in the offshore Chinese yuan market. As a result, the Chinese yuan appreciated sharply in the offshore market, reversing the gap between the offshore rate and the onshore rate. In the middle of the month, the PBOC central parity rate against the U.S. dollar was set between the lower-CNY 6.56 level and the upper CNY 6.55 level. In the trading market as well, the resistance line for the exchange rate was CNY 6.58 to the U.S. dollar toward the end of the month, without rising further. The daily volatility rate fell dramatically and returned to the level observed before the devaluation of the Chinese yuan carried out on August 11 last year. Then, on January 17, the PBOC announced that it would start implementing a reserve requirement ratio (taking effect on January 25) on deposits in Mainland China held by offshore banks dealing with offshore Chinese yuan. Market participants saw this as a measure to warn the holders of yuan selling-positions once again, which led the offshore Chinese yuan to temporarily appreciate. However, toward the end of the month, the Chinese yuan depreciated again, and the gap between the onshore rate and the offshore rate widened again to approximately 300 pips.

Interest rate market: The level of liquidity remained stable.

With regard to the interest rate market in January, the level of market liquidity occasionally fell at the beginning of the year. However, a large-scale reverse repo was conducted and the capital market stabilized toward the end of the week. Thereafter, Shanghai stock prices fell dramatically, while the scale of the reverse repo conducted by the Chinese monetary authorities was larger than expected in the market. Thus, even though capital demand increased to some extent due to the tax payment for the quarter and the Chinese New Year approaching, the capital market remained stable. Toward the end of the month, the Chinese monetary authorities supplied a large amount of capital into the market—CNY 1.3 trillion in a week—which kept the interest rates stable despite the fact that it was a period with high capital demand.

2. Outlook for This Month:

Foreign exchange market

Even though the U.S. dollar/Chinese yuan exchange rate saw violent fluctuation from the beginning of the year, the exchange market stabilized toward the end of the month, thanks to the fact that the measures taken by the Chinese monetary authorities started to have an effect, as well as that market participants gradually started to adjust their positions in preparation for the Chinese New Year. Also, the U.S. dollar/Chinese yuan market is expected to remain stable this month, as there will be less business days with a long holiday for the Chinese New Year, and the National People's Congress is scheduled in March. On the other hand, the stock market continues fluctuating violently, and last month, stock prices fell to the lowest level since the beginning of the stock price bubble in 2014. It should be mentioned that if stock prices continue depreciating in the times ahead, it is possible for the Chinese yuan to depreciate further due to concerns over capital outflow. In addition, the gap between the onshore rate and the offshore rate remains flat at the 300 pip level, and the situation is still risky, with intermittent U.S. dollar-selling operations, which are considered to be an intervention in the offshore market by the Chinese monetary authorities.

Interest rate market

In January, the Chinese monetary authority supplied a large amount of liquidity exceeding CNY 1 trillion. This is considered to be a measure to prepare for capital demand before the long holiday of the Chinese New Year. On the other hand, the Chinese monetary authorities also released some comments to warn of an increase in new loans, and thus it is essential for market participants to pay attention to future trends. It should also be mentioned that the interest rate environment has recently been stable, thanks to the capital supply by the Chinese monetary authorities as well as some banks, and therefore, market participants are paying attention to future actions by such financial institutions as well. As there will be a long holiday at the beginning of February, it is likely for the interest rates to increase.

Noriko Suzuki, Singapore Treasury Division

Singapore Dollar – February 2016

Expected Ranges	**Against the US$:**	**SG$ 1.4050–1.4450**
	Against the yen:	**JPY 82.40–85.00**

1. Review of the Previous Month

In January, the Singapore dollar depreciated against the U.S. dollar to the lowest level in six and a half years due to the violent fluctuation in the financial market as well as the instability of the Chinese yuan exchange market.

Since the end of 2015, pressure to sell Chinese yuan and Chinese stocks had been strengthening due to the uncertainty regarding the future outlook of the Chinese economy. Thus, 2016 started with violent fluctuations in the financial market. Then, the growing tension between Saudi Arabia and Iran grew into a problem in the overall Middle Eastern region, involving neighboring countries. Due to the mounting geopolitical risks, the crude oil price and stock prices fell sharply. Furthermore, there was also a thermonuclear test in North Korea and the announcement of the December Caixin Service Industry PMI of China, which turned out to be weak. As a result, the capital outflow from emerging countries accelerated further. In the meantime, Chinese stocks fell sharply, triggering the circuit breaker twice, halting trade for the day after stock prices fell by more than 7%. The onshore Chinese yuan (CNY) also depreciated sharply, led by the depreciation of the offshore Chinese yuan (CNH). As a result of this, some market participants even speculated the additional devaluation of the Chinese yuan.

As it is difficult to expect that the issues related to the uncertainty in China and the excess supply of crude oil will be resolved immediately, the risk sentiment in the market has significantly increased. Under such an unstable circumstance, the Singapore dollar was sold against the U.S. dollar, and the exchange rate rose from the upper-SGD 1.41 level at the beginning of the year to the mid-SGD 1.44 level on January 11, reaching the lowest value against the U.S. dollar since July 2009. However, the Chinese yuan exchange market generally stabilized on January 11 as a result of the daily market interventions, as well as the measures to tighten the CNH liquidity. Following this trend, the Singapore dollar exchange market also started to gradually stabilize. Although there were some slight fluctuations thereafter, such as Singapore dollar-selling after the terrorist bombing in Jakarta on January 15, the U.S. dollar/Singapore dollar exchange rate remained within a narrow range between the lower-SGD 1.43 level and the lower-SGD 1.44 level from January 11 until January 15.

In the following week, the market stabilized further and the Singapore dollar rallied slightly. On January 15, the December retail sales of the U.S. turned out to be weaker than anticipated, which led market participants to expect the next interest rate hike by the FRB to occur in the middle of the year or later. In response to this, the depreciation of Chinese stock prices slowed down, leading stock prices in other Asian countries to start to rally gradually. The Chinese yuan exchange market remained stable, and the persistent depreciation of the crude oil finally slowed down. Furthermore, on January 21, ECB Governor Mario Draghi made a remark that implied an additional measure of monetary easing in March, contributing to the improvement of the market sentiment. Following this trend, the Singapore dollar also rallied, and the U.S. dollar/Singapore dollar exchange rate fell from the level near SGD 1.44 observed at the beginning of the week to the mid-SGD 1.42 level on January 22.

In the week of January 25, market participants took a wait-and-see attitude, as important events were approaching, such as the FOMC meeting in the U.S. and the monetary policy meeting at the Bank of Japan. There was thus little fluctuation in the market. Along with the overall stability of the market, the U.S. dollar/Singapore dollar exchange market also remained stable at the upper-SGD 1.42 level.

2. Outlook for This Month

In February, the U.S. dollar/Singapore dollar exchange market is expected to remain stable while following trends in the Chinese market as well as the crude oil market.

In January, the financial market saw violent fluctuations due to the turbulence in the Chinese and crude oil markets. However, these markets are currently stabilizing. The confusion in the Chinese yuan market has been dispelled, thanks to the Chinese monetary authorities, which made efforts to sweep away concerns over the further devaluation of the Chinese yuan. The Chinese monetary authorities will be able to maintain the stability of the Chinese yuan exchange market with abundant funding for market interventions even if the capital outflow increases in the times ahead. On the other hand, the Chinese stock market remains unstable. However, the stability in the Chinese yuan exchange market is expected to prevent a serious capital outflow from emerging countries. With regard to the crude oil market, even though concerns over excess supply may not be mitigated immediately, the market seems overheated and thus the depreciation is not likely to continue at the same pace as it did so far. Furthermore, market participants expect the next interest rate hike to be postponed, and this has also been contributing to the prevention of further capital outflow from emerging countries. For these reasons, it is considered that the trend of emerging currency-selling has hit its ceiling, and the Singapore dollar exchange market is likely to remain relatively stable in February. It should also be warned that the uncertainty related to the Chinese economy will not be swept away for a while, and the commodity market has been fluctuating violently, which makes it possible for the Singapore dollar exchange market to continue fluctuating within a narrow range. Nevertheless, as there is usually little fluctuation in the market before the Chinese New Year, fluctuations in the Singapore market is not likely to grow violent unless there is a significant change in the trends in the Chinese market or crude oil market.

Market participants should remain alert to the possibility of the Singapore dollar to depreciate against the

U.S. dollar, with anticipation for the revision of the monetary policy at the regular meeting of the Monetary Authority of Singapore (also referred to as "the MAS," the central bank of Singapore), scheduled in April. The risks for the Singapore economy include weakness in external demand, and such downward risks persist as long as the outlook for the Chinese economy remains uncertain. On the other hand, the inflation rate remains stable, which is fueling market expectations for the MAS to take measures of monetary easing. If that happens, Singapore dollar-selling may accelerate.

Key events in February include the announcement of the January export statistics (February 17), the announcement of the confirmed figure for the October–December GDP (February 19), and the January CPI (January 23).

Hiroshi Seki, Bangkok Treasury Department

Thai Baht – February 2016

Expected Ranges	**Against the US$:**	**BT 35.00–36.20**
	Against the yen:	**JPY 3.30–3.50**

1. Review of the Previous Month

The U.S. dollar/Thai baht exchange rate fell as risk-averse sentiment weakened in the market.

In 2016, the U.S. dollar/Thai baht exchange market opened trading at THB 36.17 on January 4, after which the exchange rate rose to THB 36.20, due to the sharp depreciation of Chinese stock prices, which increased risk-averse sentiment in the global market. On January 7, the People’s Bank of China (PBOC) set the U.S. dollar/Chinese yuan central parity rate for a weaker yuan for eight consecutive business days, in reaction to which Shanghai stock prices dell significantly. Under such a circumstance, the U.S. dollar/Thai baht exchange rate rose to THB 36.35. On January 8, the PBOC set its central parity rate toward a stronger yuan, which temporarily stabilized the market, encouraging market participants to buy back Asian currencies. Following this trend, the U.S. dollar/Thai baht exchange rate fell to THB36.17, although the exchange rate returned to THB36.40, the monthly high, later on the same day, local time, once the December employment statistics of the U.S. were released with stronger-than-expected figures.
In the following week, the PBOC set the U.S. dollar/Chinese yuan central parity rate toward a stronger yuan on January 11 for the second consecutive business day after attracting significant attention in the market. This encouraged market participants to buy Asian currencies. Following this trend, the Thai baht was also bought back, and the U.S. dollar/Thai baht pair traded at the THB 36.30 level. On January 15, local time, the December retail sales of the U.S. (excluding automobiles) were released, and the figure was weaker than expected (the result was –0.1%, while the estimate was +0.2%). In reaction to this, the Dow Jones Industrial Average fell below USD 16,000, also leading the crude oil price to fall as well. Under such circumstances, the U.S. dollar/Thai baht exchange rate rose to THB 36.39. In the following week, the PBOC announced a measure to stabilize the Chinese yuan exchange market on January 18, stating that it had decided to normalize the reserve requirements on deposits in Mainland China placed by overseas financial institutions. This announcement mitigated risk-averse sentiment in the market, and the U.S. dollar/Thai baht exchange rate fell to temporarily reach THB 36.29. Then, on January 19, the October–December GDP of China was released, and it turned out to be close to the market estimate, encouraging market participants to buy Asian currencies. Following this trend, the U.S. dollar/Thai baht exchange rate fell to THB 36.27.

On January 22, risk-averse sentiment in the market was mitigated, thanks to the appreciation of the crude oil price as well as expectations for the ECB to take additional measures of monetary easing. In reaction to this, Thai stock prices rallied for the first time in three days, and Thai baht-buying dominated the market. As a result, on January 25, the U.S. dollar/Thai baht exchange rate fell to THB 35.89. However, the crude oil price fell again to the USD 20 level on the same day, local time, and risk-averse sentiment strengthened in the market, leading stock prices to depreciate both in Europe and in the U.S. Following this trend, the U.S. dollar/Thai baht exchange rate rallied again to THB 36.04. On January 26, the December trade statistics of Thailand were released and the export figure recorded the greatest fall since November 2011, although its impact on the market was limited. The crude oil price rallied on the same day, local time, fueling risk-averse sentiment in the market. As a result, the U.S. dollar/Thai baht exchange rate fell again. On January 27, the U.S. dollar/Thai baht exchange rate continued falling to THB 35.78 as the FOMC meeting turned out to be dovish. Then, on January 29, the Bank of Japan decided to take additional measures of monetary easing, which led Thai stock prices to appreciate. Consequently, the U.S. dollar/Thai baht exchange rate fell to its monthly low at THB 35.68.

2. Outlook for This Month

The U.S. dollar/Thai baht exchange market is expected to remain high.

The U.S. dollar/Thai baht exchange rate was on an uptrend since the beginning of the year, with the continued depreciation of the crude oil price, which led stock prices to fall globally and fueled risk-averse sentiment in the market, along with geopolitical risks based on growing tensions in the Middle East including the opposition between Saudi Arabia and Iran as observed since December. However, as the depreciation of the crude oil price and the expected interest rate hikes in the U.S. have both slowed down, the U.S. dollar/Thai baht exchange rate started to fall thereafter.

With regard to the monetary policy in the U.S., there has still been a significant difference between the plan of the FOMC to raise the interest rate four times a year and expectations among market participants, as can be seen in the fact that the interest rate hike in March is only reflected by 30% in the federal fund interest rate futures market. At the FOMC meeting held on January 27 as well, there was no remark related to the interest rate hike in March, and thus there are not enough factors to lead the U.S. dollar to appreciate.

On the other hand, business sentiment in Thailand has not been very positive. The Ministry of Commerce of Thailand announced the trade statistics of Thailand, and the value of exports in 2015 turned out to be USD 214.37 billion, with negative growth of 5.8%, recording negative growth for three consecutive years. Major export items all recorded weak figures, except for car parts. In December, the export value recorded negative growth of 8.7% year-on-year, revealing negative growth throughout a year. The value of exports to China fell by 5.4%, and expectations for an economic recovery in China have been mounting. It has been pointed out mainly among those in the private sector that it would be difficult to achieve +5.0%—the export growth rate target. Thus, the outlook remains uncertain. Furthermore, the monetary policy meeting of the central bank of Thailand is scheduled for February 3, and the governor of the central bank of Thailand, Veerathai Santiprabho, made a remark at a press interview that the economic slowdown in China would have some impact on Thailand, but that it would not be a reason to cut the policy interest rate in Thailand. He also shared his view that the Thai economy would slowly but steadily grow in 2016, thanks to economic stimulus. Therefore, the policy interest rate of Thailand is likely to be maintained at 1.50%. Market participants are also paying significant attention to the trends in the crude oil market. As the Minister of Oil in Iraq made a remark that there is "slight flexibility" between the member countries and the non-member countries of the OPEC regarding the excess supply of crude oil. Thanks to this remark, expectations are growing for cooperative actions to curb the production of crude oil. It should also be mentioned that the Minister of Oil of Iraq pointed out that Saudi Arabia and Russia showed a positive attitude toward the solution to the issue of the excess supply of crude oil. Consequently, the crude oil future price in the U.S. recovered temporarily to the USD 30 level. Compared to Malaysia (which produces oil), Indonesia (which exports minerals including coal to China), and Singapore (which invests in China), Thailand is less likely to be affected by the depreciation of the crude oil price, as it is an oil-importing country. However, the deterioration of consumer sentiment that resulted from the confusion in the Chinese market and the crude oil market is certainly a negative factor for the Thai economy. Risk-averse sentiment remains in the market due to the uncertainty in the crude oil futures market, which is likely to keep the U.S. dollar/Thai baht exchange rate high.

Akifumi Matsushita, Singapore Treasury Division

Malaysian Ringgit – February 2016

Expected Ranges	**Against the US$:**	**MYR 4.08–4.39**
	Against the yen:	**JPY 27.15–29.10**

1. Review of the Previous Month

The U.S. dollar/Malaysian ringgit exchange market opened at MYR 4.31 on January 4. Thereafter, risk-averse sentiment grew in the market, and market participants sold the Malaysian ringgit, leading the U.S. dollar/Malaysian ringgit exchange rate to reach the MYR 4.34 level. As the tension between Saudi Arabia and Iran grew stronger, the crude oil price rallied to some extent. However, the crude oil inventory of the U.S. recorded an increase, giving the impression that there was excess supply. As a result, WTI and ICE Brent both renewed their latest low. Toward the middle of the week, the Malaysian ringgit depreciated against the U.S. dollar to the MYR 4.37 level. On January 7, Shanghai stock prices depreciated further, and the November trade statistics of Malaysia were released with negative year-on-year growth. The Malaysian ringgit therefore depreciated further against the U.S. dollar to the MYR 4.41 level. On January 8, however, market participants unwound their positions and bought back the Malaysian ringgit before the announcement of the employment statistics of the U.S. As a result, the U.S. dollar/Malaysian ringgit exchange rate rallied to approach MYR 4.37, and the weekly trading closed.

On January 11, the U.S. dollar/Malaysian ringgit exchange market opened at the lower-MYR 4.37 level. The November industrial production of Malaysia turned out to be +1.8% year-on-year, recording the lowest growth rate in 16 months, although this affected the market only to a limited extent. Furthermore, Moody's revised its rating for Malaysia downward from "positive" to "stable." Then, on January 12, the WTI fell below USD 30 for the first time since 2003. However, risk sentiment in the market improved on January 13, the following day, thanks to relatively strong figures in the December trade statistics of China as well as the stability in the Chinese yuan exchange market. As there were both positive and negative factors in the Malaysian ringgit exchange market, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range around MYR 4.39 from the middle of the week toward the end of the week. In the end, trading closed at the mid-MYR 4.37 level.

On January 18, the U.S. dollar/Malaysian ringgit exchange market opened at around the MYR 4.39 level. The crude oil price depreciated significantly due to speculation about an increase in crude oil production following the lifting of economic sanctions on Iran. In reaction to this, the Malaysian ringgit also weakened and depreciated against the U.S. dollar to the mid-MYR 4.41 level. Then, on January 19, a series of economic indices were released in China, leading Asian currencies to rally, as the important event was over. Following this trend, market participants actively bought the Malaysian ringgit as well, and the U.S. dollar/Malaysian ringgit exchange rate approached MYR 4.36. On January 20, the crude oil price renewed its recent low, weakening the Malaysian ringgit. However, on January 21, expectations grew for additional monetary easing by the ECB, improving the risk sentiment in the market and leading the Malaysian ringgit to appreciate sharply. On January 22, the U.S. dollar/Malaysian ringgit exchange rate reached the MYR 4.30 level, and trading closed at that level.

2. Outlook for This Month

In January, the Malaysian ringgit depreciated during the first half of the month, as risk-averse sentiment grew quickly at the beginning of the year, weakening the currencies of emerging and resource-rich countries. In the second half of the month, market participants bought back the Malaysian ringgit as risk sentiment improved in the market with expectations for additional monetary easing by the ECB.

Key events in January included the monetary policy meeting by the central bank of Malaysia (BNM). On January 21, the BNM announced its decision to cut the statutory reserve requirement ratio in order to stimulate the economy by raising the level of liquidity within the financial system. The statutory reserve requirement ratio will be cut from the current 4% to 3.5%. With regard to the November monetary supply in Malaysia as well, the broadly defined M3 recorded positive year-on-year growth of 3.7%, making it possible for financial institutions to stimulate the economy by supplying funds to the private sector.

It should also be mentioned that on January 26, the Legal Affairs Division of Malaysia concluded that there was no criminal aspect in the scandal of Prime Minister Najib Razak regarding suspected illegal bank transfers, ending a series of investigation on the case. Even though the opposition party will continue to refer to this issue, the political uncertainty has been mitigated for now, which could be factor to encourage market participants to buy the Malaysian ringgit.

On the other hand, the trends in the crude oil market are likely to continue attracting significant attention in the market. In January, the crude oil price fluctuated violently. Recently, the crude oil marker rallied to some extent, as the media reported that the tension between Saudi Arabia and Iran had been weakened, fueling expectations for an agreement on the cutting of oil production between the member countries and non-member countries of the OPEC. However, market participants should remain cautious about the depreciation of the crude oil price in the times ahead, as if such happens, the Malaysian ringgit may follow the depreciation of the crude oil price.

In February, the Malaysian ringgit is likely to appreciate slightly and remain at that level for a while, although the trends in the crude oil market remain a key factor.

Ryosuke Kawai, PT. Bank Mizuho Indonesia
Satoshi Koizumi, Asia & Oceania Division

Indonesian Rupiah – February 2016

Expected Ranges	**Against the US$:**	**IDR 13,700–14,100**
	Against 100 rupiah	**JPY 0.84–0.88**
	Against the yen:	**IDR 114.00–118.45**

1. Review of the Previous Month

The U.S. dollar/Indonesian rupiah exchange rate hovered around at the IDR 13,800–13,900 level in January.

In 2016, the U.S. dollar/Indonesian rupiah exchange market opened at around IDR 13,900 on January 4. Even though risk-averse sentiment was strengthening globally and daily fluctuation was violent, the Indonesian rupiah remained generally strong, as the December 2015 inflation rate of Indonesia had declined from the previous month and the government bond auction went well, which both kept the Indonesian rupiah from depreciating. It should also be mentioned that the amount of foreign currency reserves as of the end of December 2015 was significantly larger than the figure as of the end of the previous month.

Due to the bombing attacks in Jakarta City on January 14, the Indonesian rupiah occasionally depreciated slightly, but its impact was limited. This is thanks to the fact that the central bank of Indonesia (BI) decided to cut the interest rate at its regular meeting held in the evening of the same day, which was a positive factor for the Indonesian rupiah market.

After the decision taken by the BI to cut the interest rate, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range without moving into any direction. The U.S. dollar/Indonesian rupiah pair has currently been trading at around IR 13,900.

2. Outlook for This Month

While the U.S. dollar/Indonesian rupiah exchange rate is expected to remain generally at the same level without moving into any direction in February, the Indonesian rupiah may occasionally approach its high.

The overall Asian currencies have been weakening due to risk-averse sentiment growing globally as well as the depreciation of the crude oil price. However, the depreciation of the Indonesian rupiah has been limited compared to other currencies in Asia.

With regard to crude oil, Indonesia suffers from an unfavorable balance of trade (the domestic production capability is lower than demand). Thus, the depreciation of the crude oil price is not necessarily a negative factor for the Indonesian rupiah exchange market, but it can contribute to controlling the inflation rate. Furthermore, the ECB indicated the possibility of additional monetary easing, and the Bank of Japan may also take additional measures of monetary easing. Such attitudes of the ECB and the Bank of Japan to support monetary easing are encouraging security investment in Indonesia, supporting the Indonesian rupiah.

In February, the GDP growth rate for 2015 is scheduled to be out at the beginning of the month, which would be an important factor for the regular meeting of the BI, scheduled for February 17 and 18. In January, the interest rate was cut for the first time in 11 months, but the Indonesian rupiah did not depreciate significantly in reaction to this. The industrial world is expecting further interest rate cuts in order to stimulate the economy.

While the inflation rate is on a downtrend, the interest rate may be cut further this month if the Indonesian rupiah exchange market remains stable in the times ahead.

Yasunori Sugiyama, Manila Branch

Philippine Peso – February 2016

Expected Ranges	**Against the US$:**	**PHP 47.30–48.30**
	Against the yen:	**JPY 2.47–2.57**

1. Review of the Previous Month

The U.S. dollar/Philippine peso exchange market closed on December 29 last year at PHP 47.06. This year, the U.S. dollar/Philippine peso exchange market opened with a slightly stronger peso at PHP 47.00 on Monday, January 4. As Chinese economic indices turned out to be weak, market participants bought U.S. dollar to avert risks, and the exchange rate approached PHP 47.15 to the U.S. dollar. However, on Tuesday, January 5, the December Consumer Price Index (CPI) of the Philippines was announced, and the result was stronger than expected. Thanks to this, the Shanghai stock market and the Chinese yuan market stabilized, mitigating risk-avert sentiment in the market and encouraging market participants to buy the Philippine peso. As a result, the U.S. dollar depreciated against the Philippine peso to PHP 46.89. On Wednesday, January 6, the Philippine peso appreciated against the U.S. dollar immediately after the market opening, and the exchange rate reached PHP 46.82. However, risk-averse sentiment grew in the market due to the media report on the thermonuclear test in North Korea, which encouraged market participants to buy the U.S. dollar, and this led the U.S. dollar/Philippine peso exchange rate to recover to the PHP 47.00 level. On Thursday, January 7, the Philippine peso depreciated against the U.S. dollar again to PHP 47.17, due to the sharp depreciation of Shanghai stock prices. On Friday, January 8, the Chinese market stabilized and the Philippine peso strengthened, and the U.S. dollar/Philippine peso exchange rate reached PHP 46.90. However, market participants adjusted their positions before the release of the December employment statistics of the U.S., which strengthened the U.S. dollar against the Philippine peso. In the end, trading closed at PHP 47.165.

On Monday, January 11, the U.S. dollar/Philippine peso exchange market opened at PHP 47.30. After attracting significant attention in the market, the People's Bank of China set the U.S. dollar/Chinese yuan central parity rate toward a slightly stronger yuan. However, Shanghai stock prices fell by more than 5%, fueling risk-averse sentiment in the market. As a result, market participants bought the U.S. dollar against the Philippine peso in order to avert risks, leading the U.S. dollar/Philippine peso exchange rate to climb to PHP 47.35. On Tuesday, January 12, this trend did not change and stock prices continued falling in many Asian countries, leading Asian currencies to depreciate as well. Following this trend, the U.S. dollar/Philippine peso exchange rate also rose to PHP 47.45. Even though the Chinese monetary authorities intervened in the offshore market by buying Chinese yuan to narrow the spread between the offshore rate and the onshore rate, the crude oil price continued depreciating. Risk-averse sentiment thus persisted in the market, and the Philippine peso continued depreciating against the U.S. dollar to reach PHP 47.55 on Wednesday, January 13, PHP 47.75 on Thursday, January 14, and PHP 47.78 on Friday, January 15. In the end, trading closed at PHP 47.74.

On Monday, January 18, the U.S. dollar/Philippine peso exchange market opened at PHP 47.80. Risks related to China were somewhat mitigated, encouraging market participants to buy back the Philippine peso, which lead the U.S. dollar/Philippine peso exchange rate to reach PHP 47.65. On Tuesday, January 19, the October–December quarter GDP of China was released, and the result was almost as was expected. Thus, market participants continued buying the Philippine peso, and the U.S. dollar/Philippine peso reached PHP 47.58. However, the crude oil price depreciated in the evening of the same day, and the overall Asian stock market weakened on Wednesday, January 20. Following this trend, the U.S. dollar/Philippine peso exchange rate rose to PHP 47.89, with market participants buying the U.S. dollar to avert risks. Then, on Thursday, January 21, participants continued buying the U.S. dollar, and the exchange rate rose to PHP 47.95. On Friday, January 22, market participants started buying the Philippine peso, as risk-averse sentiment in the market was mitigated, thanks to the fact that the depreciation of the crude oil price had slowed down in the evening of the previous day while the appreciation of the Dow Jones Industrial Average had led the appreciation of Asian stock prices. Thus, the U.S. dollar/Philippine peso exchange rate once reached PHP 47.80, and the weekly trading closed at PHP 47.805.

On Monday, January 25, the U.S. dollar/Philippine peso exchange market opened at PHP 47.75. The trends in the crude oil market remained a key factor for the Philippine peso exchange market, and the sharp depreciation of the crude oil price in the evening of January 25 fueled risk-averse sentiment in the market. As a result, the U.S. dollar/Philippine peso exchange rate reached PHP 48.00 on Tuesday, January 26. Thereafter, the central bank of the Philippines intervened in the market by selling the U.S. dollar, which slowed down the appreciation of the U.S. dollar. Consequently, the U.S. dollar/Philippine peso pair has been trading at around PHP 47.90–48.00.

2. Outlook for This Month

In January, market participants expected the Philippine peso to appreciate and the U.S. dollar to depreciate from the beginning of the year, as the Consumer Price Index of the Philippines turned out to be strong, while the impact of the interest rate hike in the U.S. in December last year was diminishing. Thus, the U.S. dollar/Philippine peso exchange rate fell below PHP 47, temporarily reaching the PHP 46 level. However, geopolitical risks grew thereafter due to the issues in the Middle East, including the tensions between Saudi Arabia and Iran as well as the thermonuclear test in North Korea, encouraging market participants to buy the U.S. dollar and leading the U.S. dollar/Philippine peso exchange rate to return to the PHP 47 level. Subsequently, the depreciation of the crude oil price led stock prices to fall

globally, rapidly strengthening risk-averse sentiment in the market. As a result, the Philippine peso rapidly depreciated against the U.S. dollar. In reaction to this, the central bank of the Philippines intervened in the market by selling the U.S. dollar at the PHP 48.00 level, in order to keep the Philippine peso from depreciating further against the U.S. dollar.
The Consumer Price Index fell to +0.4% year-on-year in September 2015. However, the index started rising toward the end of the year and reached +1.5% year-on-year in December. The inflation rate is gradually rising due to the appreciation of food prices, such as those of vegetables, as a result of the bad weather caused by the El Nino effect, as well as due to the appreciation of imported goods as a result of the further depreciation of the Philippine peso. In order to keep the Philippine peso from depreciating further, the central bank of the Philippines intervened in the market by selling the U.S. dollar at around the PHP 48.00 level.

Growing expectations for the interest rate hike in the U.S. led the U.S. dollar to appreciate while weakening the Philippine peso. Furthermore, mounting geopolitical risks and concerns over an economic slowdown in China also led the U.S. dollar to appreciate with risk-averse sentiment. Thus, there were many factors to strengthen the U.S. dollar, while the amount of OFW remittances had already peaked out, which is a seasonal factor that weakens the Philippine peso. As a result, the Philippine peso depreciated to an unexpected level in January.

The outcome of the presidential election scheduled for May remains unpredictable, which makes it unlikely for market participants to actively buy the Philippine peso. However, the movement of funds is likely to be active, as the election is approaching. The domestic economy of the Philippines is thus expected to be boosted to a great extent mainly thanks to personal consumption during the first half of 2016. The Philippine economy remains strong, and the future economic outlook will largely depend on external factors. Nevertheless, the Philippine peso is unlikely to depreciate dramatically in the times ahead, and even if there are phases of depreciation, they are not likely to last for the long term.

Hiroaki Nakano, Singapore Treasury Division

India Rupee – February 2016

Expected Ranges	**Against the US$:**	**INR 66.70–68.70**
	Against the yen:	**JPY 1.74–1.86**

1. Review of the Previous Month

In January, the Indian rupee depreciated sharply against the U.S. dollar due to expectations for continued interest rate hikes in the U.S. as well as risk-averse sentiment in the U.S. The Indian rupee renewed its low against the U.S. dollar for the first time since September 2013. The Indian rupee remained weak thereafter without recovering significantly.

On January 1, the U.S. dollar/Indian rupee exchange market opened trading at the lower-INR 66 level. On January 4, the December Caixin manufacturing PMI of China was released with a result weaker than expected. The December Nikkei manufacturing PMI of India also turned out to be significantly weaker than the figure recorded in the previous month, falling below 50. In reaction to this, Indian rupee-selling accelerated. As there were other factors, such as the media report on the thermonuclear test in North Korea as well as the sharp depreciation of the Chinese stock prices and the crude oil price, risk-averse sentiment grew in the market, which encouraged market participants to sell the currencies of emerging countries. Following this trend, the Indian rupee also continued depreciating, and the U.S. dollar/Indian rupee exchange rate rose and approached the INR 67 level.

On January 8, the December employment statistics of the U.S. were released with better-than-expected figures. However, market participants continued buying the U.S. dollar, as they expected the interest rate in the U.S. to be raised continuously with the smooth recovery of the U.S. economy. On January 11 in the following week, the crude oil price started to depreciate, and on January 12, the crude oil price fell below USD 30 per barrel for the first time since December 2003. On the same day, the November industrial production of India was also announced with a figure significantly weaker than expected. Even though the December Consumer Price Index of India turned out to be almost as it was expected, it confirmed the continued appreciation of the inflation rate. Under such circumstances, risk-averse sentiment did not weaken in the market, and as a result, the U.S. dollar/Indian rupee exchange rate rose to the lower-INR 67 level on January 15.

Market participants continued selling the Indian rupee in the week of January 18 as well. While the crude oil price was falling sharply, risk-averse sentiment persisted in the market. As a result, the U.S. dollar/Indian rupee exchange rate temporarily reached INR 68 on January 20, renewing the lowest value for the Indian rupee against the U.S. dollar in 28 months since September 2013. After that, however, the December Consumer Price Index of the U.S. fell below the market estimate, and the ECB indicated additional monetary easing in March on January 21. In response to this, the risk-averse sentiment and the appetite to buy the U.S. dollar both weakened in the market. Therefore, the U.S. dollar/Indian rupee exchange rate returned to the mid-INR 67 level, although the recovery is slow.

2. Outlook for This Month

The Indian rupee is expected to continue depreciating against the U.S. dollar in February.

In the past, the Indian rupee had been outperforming other Asian currencies in terms of the exchange rate against the U.S. dollar. In January, however, market participants sold the Indian rupee more than any other major Asian currency. Even though the depreciation of the crude oil price is a positive factor for India, the trade deficit has been decreasing only slowly, and the capital inflow from overseas (direct and indirect investment) has been slowing down. Thus, despite the sharp depreciation of the crude oil price, market participants seem to have avoided buying the Indian rupee.

The Indian Parliament is scheduled to open meetings to draft a budget for FY2016 in the second half of February. At this meeting, the BJP will put GST bills on the agenda, but it will be difficult to get the support of the opposition party and for the bills to pass. The Reserve Bank of India (RBI) is expected to start taking measures of monetary easing if the budget shows a reduction of the fiscal deficit and if the stability of the inflation rate is confirmed. However, the RBI is likely to continue carefully observing both the market trends and the inflation rate for the time being.

In the stock market in India, the SENSEX Index fell below 24,000 at the market closing on January 21, reaching the level observed in May 2014 (just before the general election). Even though there are certain positive expectations for "Modinomics," the trends in the stock market show that expectations for "Modinomics" have tapered off.

As India imports crude oil from abroad, the Indian rupee remained relatively strong, even when risk-averse sentiment strengthened in the market after the sharp depreciation of crude oil. However, as the industrial production and the PMI figures are weakening, the Indian rupee has finally started weakening. Once the market stabilizes, there would be capital inflow into India, and the stock and bond markets will stabilize as well. However, for the time being, the Indian rupee exchange market is expected to remain weak, as it was in January.

The Indian rupee is currently approaching its all-time lowest value, with a 1–2% gap. If there is an additional factor to fuel risk-averse sentiment in the market, it is possible for the Indian rupee to reach its all-time low in the times ahead.