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Mizuho Dealer's Eye

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Mizuho Bank, Ltd.

Forex Division

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U.S. Dollar – March 2016

Expected Ranges **Against the yen: JPY107.50–115.00**

1. Review of the Previous Month

With risk sentiments buffeted by the ongoing slide in crude oil prices and so on, the dollar/yen pair renewed its 2015 low in February. It swung violently by around 11 yen and at one point it even dropped below 111 yen for the first time since October 2014.

The pair hit a monthly high of 121.49 yen on February 1, but with the U.S. Manufacturing ISM Report on Business for January coming in below the 50 mark for the fourth successive month, the pair then weakened to the upper-120 yen mark. It fell to around 117 yen on February 3 after New York FRB President William Dudley voiced caution about the idea of further rate hikes. The U.S. employment data for January was released on February 5. The nonfarm payrolls data dropped below market expectations, but the average hourly wages figure and the unemployment rate outperformed prior forecasts. These mixed results meant that any dollar bullishness was short-lived, with the pair falling to the upper-116 yen level.

A risk-off mood prevailed from February 8 to February 9 as stocks fell across the globe on bearish crude oil prices, with the pair sliding to 114.20 yen. It then dropped to the lower-113 yen mark on February 10 after FRB Chair Janet Yellen suggested in her testimony to Congress that any further rates hikes would only occur at a gradual pace. With the Tokyo markets on holiday on February 11, the yen saw more risk-evasive buying as sliding crude oil prices buffeted the stock markets, with the currency pair plummeting to 110.99 yen for the first time since October 2014. It continued to fluctuate wildly thereafter, with the pair shooting up to 113 yen on some sharp short covering, for example. Though it dropped below 112 yen on February 12 on bearish Asian stock movements, it then rallied to the lower-113 yen level after the U.S. retail sales data for January outperformed market expectations.

Crude oil prices bounced back over February 15–16, with the pair rising to the upper-114 yen mark on bullish stock movements. Saudi Arabia and four other oil-producing nations then reached a provisional agreement not to increase output. Market participants had expected to see cuts in production, though, so the news was greeted with a sense of disappointment and crude oil prices fell sharply, with the dollar/yen pair weakening to the upper-113 yen level. It was dragged by a rebound in crude oil prices to recover to the 114 yen mark on February 17 after Iran's oil ministry indicated that it would support the provisional agreement. The U.S. released some better-than-expected CPI data for January on February 19, but any subsequent dollar buying was muted in nature and the currency pair fell to the 112 yen range as risk aversion intensified on bearish crude oil prices.

From February 22 onwards, the markets slipped into wait-and-see mode in advance of the G20 meeting, with the pair floating in a range around 112–113 yen while monitoring the movements of crude oil prices. Under these circumstances, the pair was pushed close to breaching 111 yen on

February 24 as the markets sold the dollar on the unsatisfactory results of the U.S. Services PMI for February. The U.S. then released some firm GDP data (second preliminary figure) for October–December. As a result, the greenback moved bullishly across the board and the dollar/yen pair rose to right around 114 yen on February 26. The G20 met over February 26–27. It adopted a joint declaration that member nations would work together to prevent an economic slowdown, so the meeting did not invite any excessive disappointment, but the pair nonetheless weakened to the 112 yen range on February 29.

2. Outlook for This Month:

There remain deep-rooted concerns about financial market instability, so the dollar/yen pair is likely to continue trading with a heavy topside in March.

Since the turn of the year, the markets have been rocked by the long-standing slide in crude oil prices and concerns about the situation in China (such as the RMB's movements or an economic slowdown). As such, the financial markets have been moving unstably. The dollar/yen pair had been pushed up to the 121 yen mark on yen selling after the Bank of Japan introduced negative interest rates on January 29, but there were considerable doubts about the effectiveness of the BOJ's move, so it did not lead to any further yen bearishness or stock bullishness. In fact, on several occasions the financial markets were thrown into even more chaos by uncertainty about the direction of crude oil markets. As risk aversion grew, the currency pair broke clearly below 115 yen (a key barrier both technically and psychologically speaking) to sharply extend its room on the downside.

Though major oil-producing nations have reached an agreement not to ramp up output, for example, both Saudi Arabia and Iran have poured cold water on the idea of cutting production, so it seems there are high hurdles in the way of dealing with the problem of oversupply. As a result, there is a long way to go before we can expect crude oil prices to rise and start moving stably. The markets will continue to be swayed by bearish crude oil movements. Furthermore, though the G20 indicated last month that it would take concerted action to prevent an economic slowdown, it will be down to individual nations to take concrete measures. China has stressed that it has room for fiscal stimulus, so attention will focus on what kinds of policies or measures emerge from the National People's Congress on March 5. Depending on how the meeting is received by market participants, it could lead to a further increase in risk aversion, so caution will be needed.

Turning to the all-important U.S. economy, and with signs of a slowdown appearing not just in manufacturing but also in the tertiary sector, concerns have started to be voiced about the U.S. economy itself. This has seen expectations for further rate hikes falling off sharply, so only a lonely few now expect the FOMC to lift rates again when it meets in March. Thus it is difficult to imagine the dollar rising on the back of U.S. monetary policy. In Japan, meanwhile, there is speculation that the BOJ will soon introduce some more easing (by pushing interest rates further into negative territories, for example). As mentioned above, though, there are doubts about the efficacy of negative interest rates, while concerns are also spreading about financial system uncertainty, so some have suggested that no event will be capable of rousing expectations for yen selling, regardless of whether or not the BOJ introduces further easing, so the BOJ's moves are unlikely to support the dollar/yen pair this month.

In addition to the above, March will also see some end-of-fiscal-year fund repatriations, while the yen is likely to be bought in tandem with the selling of European currencies on the back of concerns about a UK exit from the EU. Under these circumstances, the dollar/yen pair is expected to move with a heavy topside without a clear sense of direction on the whole.

Dealers' Market Forecast

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

Bullish on the dollar (3 bulls: 111.00–118.00, Core: 111.00–117.00)

Kato	111.00 – 116.00	The speculative movements seen since the turn of the year may start to wind down soon. The key to this will probably be the movement of crude oil prices. Under these circumstances, many Japanese firms will probably not repatriate funds at the end of the fiscal year, but will rather keep them in foreign currencies and reinvest them.
Omi	111.00 – 118.00	The U.S. will be swept up with Super Tuesday fever at the start of the month. The results could see risk sentiments improving. With the introduction of negative interest rates by the BOJ regarded as an example of a competitive devaluation, the dollar/yen pair has been trading with a heavy topside. Improvements in the U.S. economy will probably need to be felt in the pair's movements. Attention should also be paid to the fact that U.S. indicators are posting middling results.
Nishitani	111.00 – 117.00	Bearish crude oil prices and concerns about China have led to risk-evasive movements, but this mood will probably ease off going forward on a sense that negative factors have now dried up. U.S. economic indicators have belatedly shown signs of improvement. If they continue to perform strongly from here on, there may be some unwinding to the trend of excessive risk aversion.

Bearish on the dollar (8 bears: 105.00–116.00, Core: 108.00–115.00)

Fujisaki	108.00 – 116.00	Market participants will need to be on guard against the possibility of further BOJ easing or of verbal interventions by high-ranking Japanese officials in an attempt to curb the yen's rise. With the end of the Japanese fiscal year looming, though, there will be demand for the yen. With some on the U.S. side also voicing negative comments about yen depreciation, it seems the yen will be pushed higher by speculative movements this month.
Yamashita	105.00 – 115.00	Even if the U.S. posts some bullish economic indicators, the global situation suggests the FRB is unlikely to lift interest rates this month. Also, with the BOJ indicating it wants to monitor the impact of negative interest rates, it is hard to imagine further easing being introduced in Japan any time soon. The yen will be susceptible to buying against the dollar.
Yano	110.00 – 115.00	Even if expectations for further BOJ easing flare up, there is growing skepticism about the U.S. economy and the prospect of further rate hikes over there, so market participants are unlikely to feel relaxed about buying the greenback. The BOJ has introduced negative interest rates, though, and the impact of this could see Japanese institutional investors ramping up their foreign-bond investments in the new fiscal year, so as time passes, this could become a psychological support for the pair as the new fiscal year approaches.
Takada	109.00 – 116.00	The dollar/yen pair is expected to swing up and down on speculation about a rate hike in the run up to the FOMC meeting mid-March. In the end, a lot will depend on the results of U.S. economic indicators. However, when the dollar crashes during phases of risk aversion (due to bearish crude oil prices and stocks, etc.), its subsequent rebound is likely to be muted in nature.
Sato	107.00 – 115.00	Though the outcome of the G20 meeting was generally favorable, it failed to come up with many concrete policies. In fact, with the G20 agreeing not to intervene in the currency markets, the agreement probably makes it less likely that the Japanese government or the BOJ will step in when the yen rises sharply. With the end of the fiscal year looming in March, there is likely to be some yen repatriation by Japanese exporters, with the yen potentially rising higher, so caution will be needed.
Nishijima	107.50 – 115.00	As the markets continue to be buffeted by the long-standing slide in crude oil prices and concerns about the situation in China, uncertainty is growing about the U.S. economy itself. Under these circumstances, anticipation for a U.S. rate hike is dropping off and it is hard to imagine the dollar growing more bullish. The dollar/yen pair will also be weighed down by fund repatriation by Japanese firms, with the pair set to move with a heavy topside on the whole.

Shimoyama	108.00 – 115.00	The G20 powwow failed to influence risk sentiments, with the markets still haunted by emerging-economy uncertainty and an excess supply of crude oil. It is hard to imagine the U.S. lifting interest rates under these circumstances, while there are also high hurdles in the way of any further BOJ easing. There is a shortage of factors that could prompt either dollar buying or yen selling. With risk tolerance levels also falling, the dollar/yen pair is likely to trade with a heavy topside this month.
Moriya	108.00 – 116.00	With risk sentiments not really improving much, the dollar/yen pair will probably be swayed by the movements of crude oil prices and stocks. It is hard to see crude oil prices bouncing back sharply, so the pair is expected to continue moving with a heavy topside. Based on current financial market trends, expectations for an early U.S. rate hike are unlikely to increase, with market participants also likely to find it hard to actively buy the dollar.

Yu Tasai, Forex Sales, Forex Division

Euro – March 2016

Expected Ranges **Against the US$: US$1.0400–1.1400**
Against the yen: JPY120.00–129.00

1. Review of the Previous Month

The euro/dollar pair swung to and fro in February.

It came under some adjustment early February. It opened the month trading at the lower-$1.08 mark on February 1. An oil major then announced a sharp drop in profits, while expectations for a fall in crude production dropped off on news that Russia's inventories had swollen. As a result, stocks fell toward February 2, with the currency pair also rising to the mid-$1.09 level. When New York FRB President William Dudley voiced concerns about dollar appreciation on February 3, the pair strengthened to the upper-$1.11 mark. With the greenback being sold on February 4, the pair continued rising to hit the lower-$1.12 level. However, the euro/pound pair then fell on rumors that the Bank of England's Monetary Policy Committee (MPC) would lift interest rates, with the euro/dollar pair also slipping back to the upper-$1.11 range. The U.S. employment data for January was released on February 5. The dollar was bought back on the firm results, with the currency pair falling to the lower-$1.11 mark at the end of the week.

The pair opened the next week at the lower-$1.11 level on February 8. Risk aversion then intensified on bearish crude oil prices and sharp falls in European stock markets. With yields on 2-year German bonds renewing record lows, the pair fell to the upper-$1.10 level. With U.S. interest rates sliding, though, the dollar was sold and the markets saw some euro short covering. The greenback continued to be sold on February 9, while the euro also saw some risk-evasive buying, so the pair gained to the $1.13 range. It then fell to the upper-$1.11 mark on February 10 in advance of FRB Chair Janet Yellen's testimony to the U.S. Congress, but with expectations for a rate hike waning on the contents of her testimony, the pair rallied to the upper-$1.12 level.

The pair hit highs mid-February, though it moved bearishly thereafter. It temporarily hit a monthly high of $1.1377 on February 11 in the wake of Yellen's testimony. The dollar was then bought on February 12 and the pair finished the week trading at the mid-$1.12 level. It opened the following week trading at the lower-$1.12 mark on February 15. It then fell to the lower-$1.11 mark after: ECB President Mario Draghi hinted at further easing; crude oil stocks stopped sliding; and European stocks made sharp gains. With crude oil prices falling again on February 16, the currency pair was bought back to the upper-$1.11 level. However, it was pushed back to the mid-$1.11 mark after crude oil prices rose on comments by the Saudi oil minister about a freeze in any production increases. As European stocks moved firmly midweek, risk sentiments improved and the pair dropped to around $1.11. With the EU heads of state set to meet on February 18 to agree on an EU reform package, the euro/pound pair fell, with the euro/dollar pair also pulled down to the upper-$1.10 mark before finishing the week trading with a heavy topside at the lower-$1.11 level on February 19.

It remained bearish late February. It opened the next week at the lower-$1.11 mark on February 22. Amid concerns about a UK exit from the EU, the greenback was bought as crude oil prices and U.S. stocks rallied, with the euro/dollar pair weakening to the around $1.10. The German IFO Business Climate Index for February was released on February 23 and it hit its lowest level for about a year. As a result, the pair fell further to hit the upper-$1.09 level and then moved with a heavy topside right around $1.10 from February 24 to February 25.At the end of the week, on February 26, it dropped to the lower-$1.09 level as the dollar was bought on the results of some U.S. economic indicators. It continued moving with a heavy topside around the lower-$1.09 mark on February 29.

2. Outlook for This Month:

The euro/dollar pair is expected to move with a heavy topside in March.

The March 10 ECB Governing Council meeting will attract a lot of attention this month. The last meeting on January 21 was noteworthy for its dovishness, with the minutes containing comments that "risks were predominantly on the downside" and that the ECB should take preemptive measures, for example. At the same time, ECB President Mario Draghi has dropped several hints about the possibility of further easing at the March meeting, so such a move looks quite likely this month. The ECB introduced some further easing measures last December. The markets had gotten somewhat over-excited before the meeting, so the measures did not meet up to prior expectations and the euro ended up rallying after the decision. In the same way, there is an undeniable sense that the markets have gotten carried away this time too, so unless the ECB can pull something quite substantial out of the bag, we will probably see similar price movements after this month's meeting. However, the euro has been unable to maintain a sustained rally and has subsequently ended up moving with a heavy topside. Its topside is likely to remain capped going forward in light of the ongoing sharp divergence in the monetary policies of the U.S. and Europe. For example, even if the U.S. only lifts rates at a very gradual pace, say one or two more times this year, this still stands in marked contrast to the situation in Europe, where the ECB continues to pursue further easing, including the introduction of negative interest rates.

Furthermore, though it is a while off yet, the markets have suddenly shifted their focus to the UK referendum on whether or not to leave the EU, set for June 23 this year. The possibility of a UK exit is clearly weighing down the euro's movements. UK opinion polls remain inconclusive at present and the possibility of an exit cannot be completely ruled out at this moment in time. Headlines related to this topic will need to be watched closely this month too, with the issue likely to continue to weigh down the euro's movements.

The risk sentiments of market participants deteriorated sharply entering 2016. Market conditions remain volatile and it is hard to imagine risk sentiments undergoing a fully-fledged recovery in March. The nations of the G20 reached an agreement on tackling the economic slowdown when they met in

Shanghai over February 26–27, but some observers have pointed to the lack of any concrete measures. Crude oil prices have fallen to a level where there is only limited room for any further slides, but with the oil-producing nations pouring cold water on the idea of curtailing production, it is hard to see prices rallying either. The markets may well see some risk-evasive euro short covering this month, but the euro has not managed to stage a fully-fledged euro rally, despite the sharp increase in risk-evasive movements since the turn of the year, so it is hard to imagine the euro rallying on risk aversion this month either.

In March, the single currency will probably move with a heavy topside on further ECB easing and the possibility of a UK exit from the EU.

Dealers' Market Forecast

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

Bullish on the euro (5 bulls: 1.0700–1.1500, Core: 1.0800–1.1500)

Fujisaki	1.0700 – 1.1500	Expectations for further ECB easing have risen and there are also concerns about a UK exit from the EU, so the euro will weaken at times, but in the end it will bounce back on euro buying by real-demand investors. The euro will rally as speculators close out their euro short positions.
Yano	1.0800 – 1.1300	The markets have already priced in some new ECB easing measures in March, so the ECB Governing Council meeting will only have a limited impact. There are some uncertain factors, such as concerns about a UK exit from the EU, but doubts are growing about the U.S. economy and the impact of any further easing. These doubts will support the euro's movements, so its room on the downside is likely to be capped.
Sato	1.0800 – 1.1300	The markets are currently being swayed by speculation about further ECB easing, but if the easing package does not top expectations, the euro is unlikely to fall further as a result. In fact, if the easing package falls within the bounds of market expectations, this could be seen as a sign that the EU wants to avoid a depreciation competition, with investors subsequently closing out their euro short positions, so caution will be needed.
Omi	1.0900 – 1.1500	At the G20 meeting at the end of last month, German Finance Minister Wolfgang Schaeuble commented that "monetary policies have reached their limits." This seemed to place a cap on euro depreciation. If the ECB follows Japan into introducing a staggered system of negative interest rates when it meets this month, this could rouse concerns about the diminishing impact of easing policies, and this might lead to some slight unwinding (buy-backs) in the euro market.
Shimoyama	1.0700 – 1.1500	The ECB will find it hard to ease further in light of: concerns about the deteriorating results of major European banks; and the G20's statement calling for restraint. At the same time, with concerns about the emerging economies continuing to smolder away, the U.S. will probably shelve any rate hikes. There will probably be some euro short covering on the back of bearish risk sentiments, with the single currency also being bought on the eurozone's current account surplus, so the euro is expected to undergo a steady appreciation.

Bearish on the euro (6 bears: 1.0300–1.1200, Core: 1.0500–1.1100)

Kato	1.0500 – 1.1100	The ECB looks set to continue easing further. As a result, the euro will probably move with a heavy topside if the eurozone continues to see net capital outflows. Speculators are also unlikely to simply steer clear of euro shorts.
Yamashita	1.0300 – 1.1100	With inflation rates moving at low levels in Germany and throughout the EU's major nations, some further ECB easing seems inevitable. After what happened the last time around, this month's meeting is unlikely to finish merely with the introduction of some half-baked easing measures, so the euro is expected to move bearishly against other currencies.
Takada	1.0500 – 1.1100	The euro is likely to move with a heavy topside on expectations for further easing in the run up to the ECB Governing Council meeting on March 10. Though it depends on the contents of the easing package, the euro will probably be sold and have its downside tested thereafter on speculation about a UK exit from the EU. The euro may shoot up during phases of risk aversion, but these movements will probably be short-lived.
Nishijima	1.0600 – 1.1100	Inflation remains persistently sluggish in the eurozone, so the ECB will probably introduce some new easing measures. Such a move has already been factored in to a large extent, but European currencies will also be sold on uncertainty in relation to the potential UK exit from the EU, so the euro will face more selling pressure at times.
Nishitani	1.0600 – 1.1100	The markets have been swept with an excessive mood of risk aversion, but things seem to be cooling off now. If the markets regain composure, the euro will probably weaken on further easing by the ECB. The eurozone as a whole continues to face a lot of uncertainty in relation to the potential UK exit and so on. Under these circumstances the euro will be prone to trading with a downside bias.

Moriya	1.0500 – 1.1200	The euro will probably rise during phases of risk aversion, but it is expected to trend lower on the whole on expectations for further ECB easing. In contrast to the last meeting in December, market participants do not seem to be getting too carried away with their expectations for easing. As a result, the euro could be sold sharply in the wake of the ECB's decision, so caution will be needed.

Hidetoshi Honda, Europe Treasury Division

British Pound – March 2016

Expected Ranges	**Against the US$:**	**US$1.3700–1.4400**
	Against the yen:	**JPY151.00–162.00**

1. Review of the Previous Month

The pound moved bearishly across the board in February. Though it started off moving firmly against the dollar and euro, it soon crashed against the euro and then fell sharply against the greenback too. By February 23, it has broken below $1.40 to hit its lowest level against the dollar since March 2009, while it also breached GBP0.79 to hit its lowest mark against the euro since December 2014 (a euro high). It hit 175.02 yen at the start of the month, its high from January, but it then underwent a more-or-less one-sided slide against the Japanese unit. It dropped below 155 yen on February 24 to hit its lowest point since October 2013.

There were probably two main reasons behind sterling's slide. First up was a clear decline in expectations for a UK rate hike. The decision of the Bank of England's Monetary Policy Committee (MPC) meeting was released on February 4. Though Ian McCafferty had voted for a rate hike at the last six meetings, he now voted to keep the rate unchanged, so the MPC voted nine to zero to keep the policy rate fixed at 0.50%, the first unanimous decision since July last year. In February, MPC members made a number of negative comments about the possibility of a rate hike. On February 9, for example, BOE Deputy Governor Jon Cunliffe indicated his preference for macroprudential policies over rate hikes when he commented that the BOE could prick a housing market bubble using such policies. In his testimony to the UK House of Commons on February 23, meanwhile, BOE Governor Mark Carney mentioned the possibility of a rate cut, a comment echoed by MPC member Gertjan Vlieghe. Though the pound was sold on the slight downswing in the UK January CPI data (released February 16), it barely reacted to the firm UK January retail sales data (released February 19). This could also be taken as proof that the markets as a whole had decided that 'in any case, expectations for a rate hike have dropped off.'

On the other hand, the poor market reaction to uncertainty regarding the referendum on the UK's membership of the EU was probably behind sterling ongoing sharp slide in the latter half of the month. Though the EU heads of state had a lot on their agenda when they met over February 18–19, including the situation in Syria, the refugee crisis and the global economic slowdown, the main focus was a EU reform plan cooked up by UK Prime Minister David Cameron and Donald Tusk, the President of the European Council. After a long discussion, the pair produced a plan that involved slight concessions on both sides (though Cameron had wanted an 'emergency break' on migrant benefits to last for 13 years, he settled for seven years, for example. Furthermore, though Cameron got his wish that child benefit for the children of EU migrants living overseas would henceforth be paid based on the cost of living in their home country, he agreed that this would only apply to new migrant workers until 2020). This plan was unanimously approved by all 28 member nations. Announcing that he had gotten more-or-less everything he had asked for, on February 20 Cameron announced a June 23 date for the referendum. The pound reacted by falling sharply across the board from February 22. This was partly because the markets were simply perturbed by the uncertainty. However, with the stay and leave factions now battling it out, the popular mayor of London, Boris Johnson (who had previously kept his council on the issue), announced on February 21 that he would be campaigning for the UK to leave the EU. This news in particularly was taken badly by the markets.

2. Outlook for This Month:

The pound is expected to move more-or-less at a standstill in March. Though it only seems to have limited room to fall further, it is also unlikely to break out of its current lows. As for factors that could cause turbulence, it is possible that UK opinion polls could shift significantly in one direction in advance of the June referendum on whether or not to remain in the EU. However, there is still a lot of time before the June 23 date of the referendum. When it came to the 2014 referendum on Scottish independence and the general election last May, there were significant disparities between the results of prior opinion polls and the actual results on the day (UK opinion polls are unreliable). This suggests that unless an extremely decisive gap opens up, it is hard to imagine the polls inclining in any one particular direction or other.

However, market participants should be on guard against the asymmetrical impact of the referendum. Though it could lead to pound selling, it is unlikely to lead to pound buying (though it could lead to pound buy-backs). The investment markets will inevitably be faced with uncertainty, whether in regards to the results of the referendum or in regards to whether the UK will be able to sign up to a new free trade agreement if it does leave the EU. Furthermore, if a major terror attack (like the Paris attacks in November last year) occurs in the run up to the vote in June, there is a risk this could push public opinion sharply toward leaving the EU. On the other hand, even if the UK votes to remain in the EU, this does not mean some new positive factors will now emerge just because the UK has opted to maintain the status quo.

Another thing to monitor will be the impact on the euro. It seems highly likely that a UK exit would hit the UK economy, at least in the short term, but such a move could also come as a big shock to the EU economy and indeed the global economy. It would only be natural if sterling fell against the dollar and yen if the UK voted to leave, but perhaps it would be too hasty to assume the pound would also be sold sharply against the euro (in the same manner as against the dollar and yen).

The governor of the BOE is expected to touch on the risks associated with the referendum when he appears before a House of Commons select committee on Tuesday, March 8.Though it will be interesting to hear the BOE's assessment about the impact of a UK exit, for example, or about the impact of uncertainty on monetary policy in the run up to the vote, Carney's testimony is unlikely to sway public opinion much.

The results and the minutes of the BOE MPC meeting will be released on Thursday, March 17, but they will not garner much market attention. In the same way, there is unlikely to be much interest in UK economic indicators for the time being. As for the impact of monetary policy on the pound, the movements of the FRB will probably be more important than those of the BOE. In February, New York FRB President William Dudley (February 3) and the previously-hawkish St. Louis FRB President James Bullard (February 18) both voiced negative comments about the idea of further rate hikes. If we consider how the pound was sold early February as expectations for a UK rate hike receded, then we can assume that any further decline in expectations for an FRB rate hike might see sterling rallying, at least against its U.S. counterpart.

Miki Yamaguchi, Sydney Branch

Australian Dollar – March 2016

Expected Ranges	**Against the US$:**	**US$0.6900–0.7300**
	Against the yen:	**JPY77.00–83.50**

1. Review of the Previous Month

In February the AUD/USD pair moved in a narrow range between USD0.6973–0.7259.

It kicked off the month trading at the upper-USD0.70 mark on February 1. The board of the Reserve Bank of Australia (RBA) met the following day. It kept the policy rate unchanged, so the pair moved flatly. However, the pair was then dragged down to the mid-USD0.70 mark after crude oil prices dropped below the key USD30 mark in overseas markets. The U.S January Non-Manufacturing ISM Report on Business was released on February 3. At 53.5, the result fell sharply below forecasts for 55.1. The greenback was subsequently sold and the currency pair shot back to the upper-USD0.71 level. It then hit the mid-USD0.72 mark on February 4, its highest level for about a month. This came on the back of: a dovish statement by a high-ranking FRB official (pouring cold water on the idea of monetary tightening); and a sharp deterioration in the U.S. durable goods orders indicator for December. The U.S. employment data for January was released on February 5. Nonfarm payrolls increased by 151,000, down on expectations for a rise in the region of 190,000, but this kept the average for the past three months at over 200,000. With the unemployment rate also falling to 4.9% and average hourly wages rising strongly, the bullish results saw the currency pair dropping to the upper-USD0.70 level.

With Shanghai and other Asian stock markets closed on February 9 due to the Chinese New Year's Day vacation, major stock markets plummeted across the globe. As risk sentiments deteriorated, the pair temporarily fell to USD0.6973. However, it soon bounced back to the USD0.70 range. With European and other major global stock markets falling on February 11, the pair dipped below USD0.70 again, though it instantly returned to the USD0.70 level. The minutes to the RBA meeting were released on February 16. As with the previous meeting, the minutes contained no particularly new details. The Australian employment data for January was then released on February 18. The data came in below prior expectations, with the number of people in work falling by 7,900 (forecast: +130,000) and the unemployment rate hitting 6.0% (forecast: +5.8%). All this saw the currency pair floating in a range between the lower-USD0.70 mark and the mid-USD0.71 level.

Risk appetite increased on February 22 as major stock markets rose across the globe, with the pair also rising to the USD0.72 range. It then hit a monthly high of USD0.7259 on February 23. The stock bull market was short-lived, though, so the pair fell back to the mid-USD0.71 mark as risk appetite dropped off. It then moved in a range between mid-USD0.71 and mid-USD0.72 while keeping an eye on stock movements. The revised U.S. GDP figure for October–December was released on February

26. At +1.0%, the data was upgraded from the preliminary figure of +0.7%. The greenback was subsequently bought, with the pair dropping back to the lower-USD0.71 level.

2. Outlook for This Month:

The AUD/USD pair is expected to move flatly in March. Attention will be focused on the federal funds rate projections of FOMC members (the dot chart), set for release at the FOMC meeting over March 15–16.

The board of the RBA opted to leave the policy rate unchanged in February. The accompanying statement said that "over the period ahead, new information should allow the Board to judge whether the improvement in labor market conditions is continuing and whether the recent financial turbulence portends weaker global and domestic demand." As with the previous statement, it also reconfirmed that with inflation moving at low levels, the RBA has room to loosen monetary policy if necessary. The core inflation rate (= (trimmed mean + weighted median) ÷2) is an indicator that the RBA keeps a close eye on when implementing policy. At +2%, this indicator currently remains at the lower bound of the RBA's inflation target range (2–3%). The RBA is unlikely to implement further easing until the next round of inflation data is released in the latter half of April.

In her testimony to the U.S. Congress on February 10, FRB Chair Janet Yellen pointed to the risks posed to the U.S. economy by uncertainty about tight financial market conditions and China. She also said it would be appropriate to lift rates at a slower pace if the economy slowed. When the dot chart is released on March 16, it is likely to point to a slower pace of tightening than forecast at the last meeting in December (four times this year). Attention will focus on how many rate hikes (from one to three) FOMC members are now expecting in 2016. Judging by the U.S. short-term interest rate market, investors think there is only a 50% chance rates will be lifted again within the year.

Commodities continue to move bearishly. The emblematic NY crude oil futures indicator (WTI) temporarily hit USD26/barrel for the first time in 12 years. The price of iron ore, a major Australian export, has rallied to the USD50 mark after previously breaching USD40 in January, though it continues to move at 6-year lows. Coal also remains at its lowest price in six years.

Based on the above, Australia will probably keep monetary policy unchanged, while the FOMC is likely to lower the pace of its tightening program, so the Australian dollar will be bolstered by monetary policy this month. The commodity markets will push the Australian dollar lower, though, so on the whole the AUD/USD pair is expected to move flatly.

On the technical side of things, after dropping below the 'cloud' (resistance/support line) in the Ichimoku Kinko Hyo trading chart in January, the pair once again rose above the cloud in February. Since late February, the somewhat thick cloud has settled around USD0.70–USD0.71. This cloud is functioning as the Australian dollar's support barrier. Furthermore, the pair has been unable to break above its long-term moving average line (200 days) since September 2014. This line now stands around USD0.7260, so if the pair tops this level, this may give it some short-term upwards momentum.

Katsuhiko Takahashi, Americas Treasury Division

Canadian Dollar – March 2016

Expected Ranges	**Against the US$:**	**C$1.3250–1.4000**
	Against the yen:	**JPY80.00–86.50**

1. Review of the Previous Month

The USD/CAD pair continued to move with eye on crude oil prices at the start of February. With the Canadian unit being sold on bearish crude oil prices, the pair temporarily rose to C$1.4103. However, with positions inclined heavily in one direction, the Canadian dollar gradually faced more pressure for short covering. It was bought back sharply in the run up to the release of the employment data, with the currency pair falling to C$1.3640. The Canadian employment data for January was released on February 9, with the number of people in work unexpectedly falling. The U.S. employment data for January was also released. Though the nonfarm payrolls data dropped below expectations, average hourly wages rose and the unemployment rate dropped below 5%, so the U.S. dollar was bought across the board. With the Canadian unit also being sold, the currency pair bounced back to the C$1.39 range. Crude oil prices then fell on six successive business days on concerns that excess supplies would mount up as demand dropped off due to the global economic slowdown. At one point, crude oil fell to USD26.05 a barrel, its lowest price for roughly 12 years and 9 months. As a result, the Canadian unit saw more selling and the currency pair rose to C$1.4016 again.

As excessive risk aversion gradually eased off mid-February, major oil-producing nations like Saudi Arabia and Russia reached an agreement to freeze crude oil output at January's level. As concerns about oversupply receded, crude oil was bought back and the Canadian dollar also rose sharply, with the USD/CAD pair falling to the mid-C$1.36 level. However, it seemed the oil-producing nations would find it hard to reach an agreement on cutting production, while there were also lingering doubts about the effectiveness of the recent agreement, so crude oil prices did not manage to undergo a one-sided rise. As a result, the Canadian and U.S. units battled it out through a mixture of buying and selling.

With crude oil prices then rallying sharply in the latter half of the month, stock markets also shot up and the Canadian dollar saw some adjustive buying. This saw the currency pair temporarily dropping to C$1.3482 for the first time since December 7 last year before ending the month trading at C$1.3540.

2. Outlook for This Month:

NY crude oil futures have returned to the USD30 mark. With stock markets rallying across the globe, the mood of excessive risk aversion has eased off and the USD/CAD pair has fallen at times. One would be hard-pressed to say instability has been removed from the financial markets, though, so any Canadian-dollar buy-backs have been muted in nature. The movements of crude oil prices are strongly correlated with those of the Canadian dollar. With major oil-producing nations reaching an agreement not to ramp up production, crude oil prices bounced back sharply at one point, but unless production falls drastically or demand increases, it is hard to imagine prices rising substantially beyond current levels. The situation remains highly volatile across the board on uncertainty with regards to crude oil prices. With the markets growing more sensitive, the position-holding cycle is becoming more short term in nature. Now is probably the time when market participants should keep an eye on market durability.

With the Bank of Canada maintaining a neutral position at the moment, market expectations for a rate cut are being kept in check. With a number of central banks pursuing easing, attention will be focused on whether the Bank of Canada's Monetary Policy Committee (MPC) sticks to this stance when it next meets in March. On the other hand, though the FOMC had been expected to implement four rate hikes this year, this likelihood has fallen sharply on financial market instability. However, the FRB has signaled that its next move will be a rate hike, so market participants will be watching to see whether the FOMC shifts its stance from the continuation of rate hikes to a more wait-and-see attitude at its next meeting.

Tomohiro Yamaguchi, Seoul Treasury Department

Korean Won – March 2016

Expected Ranges	**Against the US$:**	**KRW1,210–1,270**
	Against the yen:	**JPY8.70–9.50 (KRW100)**
		(KRW10.50–11.50)

1. Review of the Previous Month

In February the won weakened on the whole against the major currencies on increasing tensions between North and South Korea. The USD/KRW pair rose for the fourth consecutive month to temporarily hit its highest level since June 2010.

The pair swung to and fro early February. With the Bank of Japan announcing some new easing measures at the end of January, the pair kicked off February trading at KRW1206.0, up KRW6.9 on the end of January. On February 3, North Korea notified the International Maritime Organization (IMO) that it would be launching an 'earth observation satellite.' With crude oil prices also remaining bearish, the pair renewed its high for the year and then rose to KRW1220. With the Lunar New Year holiday looming, the People's Bank of China (PBOC) moved to pump liquidity into the markets. As the RMB's movements grew more composed, the USD/KRW pair's gains were pared back. On the morning of February 5, directly before the start of the Lunar New Year holiday, the pair hit a monthly low of KRW1189.5, down KRW9.6 on the end of January. With the holiday then commencing, South Korean markets were on vacation over February 8–10.

The pair rose sharply mid-February. The pair moved firmly at the start of trading on February 11, the first trading day after the holiday. North Korea had launched a missile during the holidays on February 7, though, so on February 10 the South Korean government decided to suspend operations at the Kaesong Industrial Region, which it had been running as part of its Sunshine Policy. On February 11, North Korea ordered a military takeover of the industrial complex. It also announced it was expelling South Korean staff and freezing South Korean assets. With geopolitical risk ratcheting up, the currency pair extended its gains. In a speech to parliament on February 16, meanwhile, President Park Geun-hye hinted that South Korea might take a tougher line against Pyongyang. As expected, the Monetary Policy Committee (MPC) of the Bank of Korea (BOK) decided to keep the policy rate unchanged at its meeting, though MPC member Sung Keun Ha pressed for a rate cut. The U.S. then passed a bill tightening sanctions on North Korea on February 18. Seoul also shifted its stance toward North Korea, with an anti-terror bill presented to parliament and the government talking about the risks posed by terrorism. All of this saw the USD/KRW pair rising to KRW1239.6 on February 19, up KRW40.5 on the end of February. On the same day, though, the BOK and the Minister of Strategy and Finance made a joint verbal intervention in the currency markets. They declared that currency fluctuations had become too volatile and they indicated they were prepared to counter any excessive volatility. The currency pair's climb eased off for a time in the wake of this announcement.

The pair then moved at highs late February. On February 25, the U.S. and China agreed on a draft resolution to expand sanctions against North Korea in response to its missile launch, with the two nations announcing their intention to submit the draft to the U.N. Security Council. With geopolitical risk in relation to North Korea still high, the USD/KRW pair moved at highs. At one point it hit KRW1245.3 on February 29, its highest level since June 2010. Amid concerns of a market intervention, though, it dropped back to close trading at KRW1236.7, up KRW37.6 on the end of January.

2. Outlook for This Month:

The USD/KRW pair might continue rising in March. However, there could also be some substantial unwinding depending on the stances of the central banks in Japan, the U.S. and Europe, for example, or on the state of relations between North and South Korea, so market participants will need to pay attention to various events and news reports.

Seoul's stance towards Pyongyang has changed since the underground nuclear test in January and the missile launch on February 7. The U.S. and China have adopted a draft resolution on sanctions against North Korean and they intend to submit it to the U.N. Security Council, so observers will need to keep an eye on the details of the sanctions program and the movements of North Korea. With crude oil prices and Chinese markets continuing to move unstably, the won may weaken further depending on the response from Pyongyang.

Furthermore, at February's BOK MPC meeting, BOK governor Lee Ju-yeol expressed concerns about ballooning household debt, with the MPC adopting a somewhat hawkish stance. However, MPC member Sung Keun Ha pressed for a rate cut, so expectations for a rate cut of the March 10 meeting have increased slightly.

However, the ECB Governing Council will also be meeting on March 10, while the Bank of Japan's MPC and the FOMC are set to meet on March 15 and March 17, respectively. The ECB has dropped hints about the implementation of further easing at the March meet-up. If FOMC members also adopt a dovish stance, risk sentiments could well improve this month. Market participants should also be aware that in regular years the USD/KRW pair is prone to weakening between late March and the start of May.

Junji Tsujino, Taipei Treasury Department

New Taiwan Dollar – March 2016

Expected Ranges	**Against the US$:**	**NT$32.75–34.00**
	Against the yen:	**JPY3.20–3.50**

1. Review of the Previous Month

In February the USD/TWD pair weakened slightly on U.S.-dollar bearishness.

The pair opened the month trading around TWD32.50. After the Bank of Japan announced it was introducing negative interest rates, the yen weakened and this filtered through into euro bearishness and so on, with the Taiwan unit also sliding for a time at the start of trading. With stocks climbing, though, the unit bounced back and the pair dropped back to around TWD33.40, its level at the end of January. The U.S. released a disappointing January Manufacturing ISM Report on Business on February 1. As the greenback weakened, the Taiwan dollar made slight gains and the currency pair dipped to the upper-TWD33.30 mark on February 2. The offshore RMB fell sharply on February 3 and the Taiwan dollar was also pulled lower, with the pair rising to around TWD33.60, though it then fell back to the upper-TWD33.30 level on February 4 following the release of a bearish U.S. Non-manufacturing ISM Report on Business for January. The same day also saw the release of the U.S. new applications for unemployment insurance data, with the pair dropping to TWD33.20 on February 5 on the weak result.

Taiwanese financial markets were closed over February 8–12 due to the Chinese New Year holiday. The U.S. dollar weakened during this time, so when trading reopened on February 15, the pair dropped to around TWD33.00. However, with the Korean won weakening on February 16 on expectations for a rate cut, the Taiwan unit was also pulled lower and was sold to the around TWD33.20 against its U.S. counterpart. The currency pair moved at the upper-TWD33.20 mark on February 17 as the Korean won continued to move bearishly and the U.S. dollar rallied. The U.S. then released some bullish economic indicators over February 18–19, but with the minutes to the FOMC meeting confirming the dovish stance of FOMC members, the greenback moved flatly on the whole, with the pair continuing to trade at the upper-TWD33.20 level.

The Korean won bounced back on February 22. The Taiwan unit was also pulled slightly higher, with the pair dropping to around TWD33.20. With the greenback's movements muted over February 23–26, the won also stopped moving bearishly and the USD/TWD remained deadlocked at TWD33.20. The markets were closed on February 29 due to a Taiwanese national holiday.

2. Outlook for This Month:

The Taiwan dollar is expected to weaken slightly against the U.S. dollar in March.

With exports falling, Taiwan's January trade surplus (expressed in USD) was down on a year-on-year basis. The January CPI data moved in positive territories for the fifth successive month. Prices are always prone to rising before the Chinese New Year holiday and this helped push the data up on the previous month. However, export orders and industrial production continued to move weakly, while the unemployment rate also edged upwards, so judging from economic statistics, there are still no signs the economy is improving.

The biggest factor for the USD/TWD pair in March will be the greenback's movements. Expectations for a U.S. rate hike have dropped off sharply, but market participants will still be paying close attention to the March FOMC statement and the interest rate forecasts of FOMC members. With regards to the latter, members predicted four rate hikes in 2016 when their projections were last released in December 2015, but it will be interesting to see how their projections stand now, given the recent market turmoil and the results of U.S. economic indicators. Though U.S. economic indicators have certainly performed badly, there has been some bullish data related to consumer prices and so on, so provided the forecast for the U.S. economy is not revised sharply downwards, the U.S. dollar will probably rise for a time. Meetings are also penciled in for the ECB and the Bank of Japan. The outcomes of these could also increase the relative attractiveness of the U.S. dollar, with the greenback subsequently rising for a time, so market participants should be on guard.

The Bank of Taiwan (BoT) will also be holding a regular meeting in March. The movements of the overnight rate (O/N rate) tend to precede those of the policy rate. The O/N rate has fallen, while Taiwan has posted negative GDP growth for October–December 2015. As a result, the BoT looks set to cut rates when it meets this month. In fact, with yields negative in the interest-rate swap market, it seems the markets are also pricing in a rate cut. As a result, it is hard to imagine the Taiwan unit facing more selling pressure just because the BoT decides to lower the policy rate. What does require attention is the BoT's stance from here on and the potential adoption of non-conventional monetary policies. Judging from the phase of rate cuts that followed the Lehman Shock, it seems there is room for three more rate cuts, including one in March, with the O/N rate likely to hit 0.10%. Furthermore, at the time of the Lehman Shock, though the BoT lowered interest rates toward a lower band of 0.10%, it also implemented quantitative easing by building up its excess reserves. Compared to the Korean won, which has weakened on expectations for a rate cut, it is hard to see what factors could push the Taiwanese unit lower. However, if the BoT governor rouses expectations for quantitative easing in his press conference following the March board meeting, there is still room for some sharp Taiwan-dollar depreciation.

Ken Cheung, Hong Kong Treasury Division

Hong Kong Dollar – March 2016

Expected Ranges	**Against the US$:**	**HK$ 7.7600–7.8000**
	Against the yen:	**JPY 13.95–14.80**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in February

In February, the Hong Kong dollar appreciated against the U.S. dollar, thanks to the stability in the offshore Chinese yuan exchange market as well as the rally of the stock market in Mainland China. The U.S. dollar/Hong Kong dollar exchange rate was thus within a range between HKD 7.77 and HKD 7.78. On the other hand, market participants now expect the interest rate hikes in the U.S. to be slower than originally anticipated, which somewhat mitigated concerns over capital outflow from the Hong Kong markets from the middle of February. As a result, the U.S. dollar weakened against the Hong Kong dollar after the Chinese New Year. As these factors stabilized market sentiment, the Hong Kong dollar appreciated to reach the HKD 7.77 level against the U.S. dollar. Furthermore, the one-year forward on the Hong Kong dollar fell sharply from its high at 650 points to 190 points, following the fall of the Hong Kong dollar/U.S. dollar spot exchange rate, which suggests that less and less market participants are expecting the Hong Kong dollar to depreciate in the times ahead.

Hong Kong dollar interest rate market in February

Concerns over capital outflow from Hong Kong markets were mitigated, which led short-term Hong Kong dollar interest rates to somewhat fall. As a result, the three-month HIBOR fell to 0.62%, further approaching the three-month LIBOR. The balance of the settlement accounts at the Hong Kong Monetary Authority (HKMA)—the figure used as an index to show the liquidity of Hong Kong markets—remained high at HKD 363 billion. On the other hand, the interest rate swap rates for three years and five years dropped by around 20 points due to the depreciation of the U.S. dollar interest rate swap rates. The Hong Kong dollar basis swap rates have been stable, and the rates for both five years and 10 years have remained at around 10 points.

Hong Kong stock market in February

The benchmark Hang Seng Index continued falling in February and reached its low for the first time in three years, following the depreciation of global stock prices. Thereafter, the Hang Seng Index rallied to some extent, thanks to the stabilization of the Chinese stock market and the Chinese yuan exchange market, as well as the recovery of the crude oil price. It should be noted that the National People's Congress will be held in the coming month and that new economic stimulus measures are likely to be announced, which is also a supporting factor for the Hong Kong dollar exchange market.

2. Outlook for This Month:

Hong Kong dollar spot exchange market in March

In February, the U.S. dollar/Hong Kong dollar exchange rate remained within the range of HKD 7.76–7.80. Even though concerns over capital outflow from Hong Kong have been somewhat mitigated, market participants still expect the FRB to raise the interest rate further before the end of the year, which would cause capital outflow from Hong Kong again, possibly leading the U.S. dollar/Hong Kong dollar exchange rate to rise. On the other hand, the Chinese yuan exchange market has been stable, which kept capital outflow from increasing further, and the Hong Kong dollar did not depreciate against the U.S. dollar in January. It should also be mentioned that there is little concern regarding the Hong Kong dollar peg system, as the amount of foreign currency reserves in Hong Kong was USD 357 billion in January.

Hong Kong dollar interest rate market in March

As market participants are less and less cautious about changes to the Hong Kong dollar peg system, the Hong Kong dollar exchange market is expected to remain stale in March. Thus, the three-month HIBOR is forecast to remain at around 0.6%. Given that the interest rate hikes in the U.S. will be slow, the Hong Kong dollar interest rate swap rates are likely to fall in the times ahead.

So Ouchi, Treasury Division, MHBK (China)

Chinese Yuan – March 2016

Expected Ranges	**Against the US$:**	**CNY 6.3500–6.8500**
	Against the yen:	**JPY 16.06–18.58**
	Against 100 yen:	**CNY 5.5300–6.2200**

1. Review of the Previous Month

The appreciation of the U.S. dollar/Chinese yuan exchange rate observed since the beginning of the year was cancelled out after the Chinese New Year.
The Chinese market was closed from February 8 until February 12 for the Chinese New Year.

Before the Chinese New Year holidays, the U.S. dollar/Chinese yuan exchange rate remained stable, remaining at around CNY 6.58. However, on February 15 after the Chinese New Year, the Chinese yuan appreciated sharply due to the fact that the U.S. dollar depreciated globally, and the People's Bank of China set its central parity rate with the Chinese yuan stronger by 200 pips than the rate on the previous day. The appreciation of the exchange rate observed since the beginning of the year was cancelled out, and the Chinese yuan appreciated against the U.S. dollar to lead the exchange rate to fall below CNY 6.50.

Interest rate market: The liquidity level remained stable.
In February, the interest rate market remained stable, thanks to the open-market operations carried out by the Chinese monetary authorities. In order to respond to capital demand before and after the Chinese New Year holidays, the Chinese monetary authorities carried out open-market operations every business day between January 29 and February 19. On February 18, there was also a media report that the Chinese monetary authorities would extend the approval to carry out open-market operations every business day, which was originally until February 19, to an unlimited period of time, which also makes it more likely for the market to remain stable.

2. Outlook for This Month:

Foreign exchange market
The National People's Congress (NPC) is scheduled to start on March 5, and an important decision will be made regarding whether or not to expand the daily fluctuation band. If the daily fluctuation band is

expanded at the National People's Congress, the Chinese yuan would more likely to depreciate, given past examples. However, as the Chinese monetary authorities aim to stabilize the Chinese yuan exchange market, the daily fluctuation band may also be restricted in order to avoid excessive fluctuations. The National People's Congress will thus be an important event not only for the foreign exchange market but also for the outlook of the Chinese economy.

Interest rate market

The measures taken by the Chinese monetary authorities to stabilize the market have been effective, and the liquidity level has been stable. However, capital providers in the market are limited, and market participants should remain cautious about the supply & demand balance. Open-market operations are currently carried out every business day with approval for an unlimited period of time. However, it should be mentioned that if this approval is withdrawn, the interest rate market may be significantly affected.

Noriko Suzuki, Singapore Treasury Division

Singapore Dollar – March 2016

Expected Ranges	**Against the US$:**	**SG$ 1.3800–1.4200**
	Against the yen:	**JPY 79.50–83.00**

1. Review of the Previous Month

In January, the Singapore dollar reached its low against the U.S. dollar for the first time in six and a half years due to concerns over economic slowdown in China as well as the depreciation of the crude oil price, which caused confusion in the monetary market. In February, however, the Singapore dollar rallied, as market participants expected the next interest rate hike to be postponed.

At the end of January, the Bank of Japan made an unexpected announcement on its decision to introduce a negative interest rate, which led the Japanese yen to depreciate. Following this trend, the Singapore dollar weakened at the beginning of the month, fluctuating between the lower-SGD 1.42 level to the lower-SGD 1.43 level. On February 3, however, President of the Federal Reserve Bank of New York William C. Dudley made a dovish remark, revealing his concerns over the appreciation of the U.S. dollar, which led market participants to expect the next interest rate hike to be postponed. As a result, the U.S. dollar depreciated against the overall exchange market. In particular, the U.S. dollar depreciated against the Japanese yen, and the U.S. dollar/Japanese yen exchange rate returned to the level observed before the announcement of the additional measures of monetary easing within several days. This fueled the sense of disappointment in the market, and the Japanese yen further appreciated against the U.S. dollar. Following this trend, market participants also bought back the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate reached the mid-SGD 1.39 level on February 5. In the evening of the same day, the January employment statistics of the U.S. were released with mixed figures, which led the U.S. dollar/Singapore dollar exchange rate to return to a level around SGD 1.41.

In the second week of the month, there were violent fluctuations not only in the foreign exchange market but also in the stock and bond markets. Even though the market was closed in Singapore during the first half of the week because of the Chinese New Year holidays, the depreciation of the U.S. dollar accelerated mainly against the Japanese yen. Following this trend, the Singapore dollar also strengthened against the U.S. dollar. The stock prices in the U.S. and European markets as well as the crude oil price also continued falling every day, leading the U.S. 10-year bond yield to reach its lowest level in three and a half years. Under such circumstances, market participants continued buying the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.38 level on February 11, recording the highest level for the Singapore dollar for the first time in approximately four months. However, as the market fluctuations were too rapid, the trend was automatically reversed in the U.S. dollar exchange market, as well as in the stock, bond, and crude oil markets, on February 11. Thus, the monthly high in the Singapore dollar exchange market was recorded on February 11. On February 12, market participants adjusted positions before the upcoming three consecutive holidays in the U.S., based on the fact that the January retail sales of the U.S. turned out to be stronger than expected, which led the U.S. dollar/Singapore dollar exchange market to return to the upper-SGD 1.39 level as well.

The Singapore dollar remained weak in the third week of the month due to the trend reversed in the previous week. Under such circumstances, the January figure for the non-oil exports of Singapore was announced on February 17, which was weaker than expected. As a result, market participants sold the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.41 level. Thereafter, however, the market stabilized after a series of violent fluctuations, and the U.S. dollar/Singapore dollar exchange rate continued fluctuating mainly at the SGD 1.40 level. Even though there were slight movements when some economic indices were released, the exchange rate remained almost at the same level until the end of the month.

2. Outlook for This Month

In March, the Singapore dollar is expected to remain strong, while monetary policies in major countries will remain a key factor.

Regarding the monetary policies of major countries, it is the consensus in the market that the FRB is not likely to raise the interest rate soon and that the ECB is likely to follow the Bank of Japan by introducing additional measures of monetary easing. Unless there is an unexpected event, such as a revision to the inflation outlook based on the unexpected appreciation of crude oil, the monetary authorities in major countries are thus likely to maintain their dovish attitude. Therefore, the overall Asian currencies are expected to remain stable. Even though there are persistent risks of instability in the monetary market, the market has currently been stable, and there are now less risks of the depreciation of Asian currencies caused by capital outflow.

With regard to domestic factors in Singapore, the most important event will be the announcement of the monetary policy by the Monetary Authority of Singapore (MAS), scheduled for April. For the Singapore economy, the weakness of external demand remains a risk factor, and the import prices have recently declined. Thus, a large number of market participants expect additional measures of monetary easing. However, the MAS emphasized at the time of the announcement of the Consumer Price Index (CPI) that it was still cautious about price appreciation. As the labor market remains tight, the salary level in 2016 is likely to be higher than that in 2015, albeit to a moderate extent. Furthermore, the core inflation outlook for 2016 was kept at the current level at +0.5–1.5%, due to the depreciation of the crude oil price as well as the fading effect of the subsidy to keep the prices low. Under such conditions, it seems that the measures of monetary easing taken in October last year were enough for the MAS.

It is likely that the Singapore dollar exchange market will hit bottom in January. Even though there is a possibility for market participants to sell the Singapore dollar based on market speculations about the revisions to be made at the MAS regular monetary policy meeting in April, even if it is the case, the depreciation of the Singapore dollar is expected to be relatively small.

Key external events in March include the ECB Committee meeting (March 10), the Bank of Japan monetary policy meeting (March 14 and 15), and the FOMC meeting in the U.S. (March 15 and 16), while key domestic events include the announcement of the February export figures (March 17), as well as the announcement of the February CPI (March 23).

Yuki Inoue, Bangkok Treasury Department

Thai Baht – March 2016

Expected Ranges	**Against the US$:**	**BT 35.50–36.50**
	Against the yen:	**JPY 3.00–3.20**

1. Review of the Previous Month

At the end of February, the U.S. dollar/Thai baht exchange rate returned to the level observed at the beginning of the month.

In the first half of the month, the U.S. dollar/Thai baht continued falling, and the U.S. dollar/Thai baht exchange market opened at around THB 35.70. While overall Asian currencies remained strong, the U.S. dollar/Thai baht exchange rate also remained low. The Ministry of Commerce of Thailand announced the January Consumer Price Index (CPI), and the result turned out to be –0.53%, recording negative year-on-year growth for the 13th consecutive month. However, the U.S. dollar/Thai baht exchange rate reacted to this only to a limited extent. On February 3, the monetary policy committee at the central bank of Thailand decided to keep the current monetary policy as was expected in the market, to which market participants did not actively react. Thereafter, the U.S. interest rate fell, as market participants expected that the pace of interest rate hikes in the U.S. would be slow, encouraging U.S. dollar-selling. As a result, the U.S. dollar/Thai baht exchange rate fell below THB 35.50. However, on February 5, the January employment statistics of the U.S. were released, and the hourly salary recorded positive growth, in reaction to which the U.S. dollar/Thai baht exchange rate rallied to the THB 35.60 level. Thereafter, U.S. dollar-selling started dominating the market again due to concerns over problems in fund procurement at European financial institutions as well as the depreciation of the crude oil price. Following this trend, the U.S. dollar/Thai baht exchange rate fell again to approach THB 35.40. On February 10, FRB Chair Janet Yellen did not mention any details regarding monetary policy in the U.S. at the Congressional testimony, and market participants continued selling the U.S. dollar. As a result, the U.S. dollar/Thai baht exchange rate fell to the THB 35.20 level on February 11, for the first time since October last year.

In the middle of the month, however, the U.S. dollar/Thai baht exchange rate rallied rapidly. While the Thai baht continues rapidly appreciating since the beginning of the year, Deputy Prime Minister of Thailand Somkid Jatusripitak stated on February 12, "The central bank of Thailand can control the foreign exchange market in order to avoid any negative impact on the export market." This fueled expectations for the central bank to intervene in the market, which led the U.S. dollar/Thai baht exchange rate to rally rapidly, temporarily reaching the THB 35.60 level. Then, the October–December quarter GDP of Thailand was released on February 15, and the result turned out to be +2.8% year-on-year, slightly stronger than the market estimate, although the reaction in the market was limited. Thus, the U.S. dollar/Thai baht exchange rate remained fluctuating within a small range at the THB 35.60 level. On February 17, the central bank of Thailand announced the minutes of the MPC meeting held on February 3, indicating a concern that "The depreciation of the Thai baht since the beginning of this year may affect the domestic economy." However, the appreciation of the U.S. dollar/Thai baht exchange rate was limited.

The U.S. dollar/Thai baht exchange rate continued rising in the second half of the month. While the depreciation of the crude oil price was keeping overall Asian currencies weak, the U.S. dollar/Thai baht exchange rate continued rising to reach the THB 35.70 level. Thereafter, the appreciation of the U.S. dollar/Thai baht exchange rate gradually slowed down because of the demand of exporting companies to buy the Thai baht toward the end of the month. On February 25, the January trade statistics were released. According to the January trade statistics announced by the Ministry of Commerce of Thailand, exports recorded negative growth of –8.91% year-on-year, while imports recorded negative growth of –12.37% year-on-year. The negative growth was thus more significant than expected in the market. In particular, exports recorded their largest fall since November 2011. However, there was demand to buy the baht by exporting companies in Thailand toward the end of the month, which led the U.S. dollar/Thai baht exchange rate to gradually fall to the THB 35.60 level.

2. Outlook for This Month

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

The economic conditions of Thailand are far from being positive. According to the Office of the National Economic and Social Development Board (NESDB), the October–December quarter GDP of Thailand was 2.8% year-on-year, which is slightly above the level expected in the market. While public investment was one of the driving forces for the growth of the GDP, the export figures turned out to be –5.6% year-on-year, revealing the weakness. In addition to the fact that there is positive outlook for the tourism industry, the recent depreciation of the Thai baht has also been functioning as a positive factor for export growth. However, it is difficult to sweep away a number of risk factors seen not only in Thailand but also in many other countries, such as the economic slowdown in China as well as the depreciation of commodity prices. It should also be mentioned that, at the same time as the announcement of the GDP, the NESDB revised the estimated growth rate for 2016 downward from +3.0 to +4.0% to +2.8 to +3.8%, while private economists are even more pessimistic.

While the economic outlook of Thailand remains uncertain, funds continue flowing into Thai government bonds. The Thai baht volatility has been lower than that of other Asian currencies, and it seems that market participants have bene hunting for high yields after the introduction of a negative interest rate by the Bank of Japan. The five-year bond yield has currently been at its lowest level since 2003.

In the U.S. dollar/Thai baht exchange market, the Thai baht continued appreciating almost without any interruption from the beginning of the year to the middle of February. As Deputy Prime Minister of Thailand Somkid Jatusripitak referred to market interventions, the central bank of Thailand often carries out Thai baht-selling interventions, as the appreciation of the Thai baht is a negative factor for domestic importing companies. Given that the U.S. dollar/Thai baht exchange rate rallied sharply at around THB 35.20 in October last year, the exchange is unlikely to fall below this level in the times ahead, even when the Thai baht appreciates against the U.S. dollar.

With regard to domestic factors in Thailand, there is persistent risk-averse sentiment in the entire market, due to the depreciation of the crude oil price. While market participants are currently avoiding U.S. dollar-buying based on the speculation that the interest rate hikes by the FRB will be slow, this trend has gone slightly too far now. Therefore, given the weakness of the domestic economy in Thailand, the U.S. dollar/Thai baht exchange rate is expected to start gradually appreciating again in the times ahead.

Akifumi Matsushita, Singapore Treasury Division

Malaysian Ringgit – March 2016

Expected Ranges	**Against the US$:**	**MYR 4.08–4.35**
	Against the yen:	**JPY 25.50–28.00**

1. Review of the Previous Month

On February 1, the market was closed for the Federal Territory Day for Kuala Lumpur. On February 2, the following day, the U.S. dollar/Malaysian ringgit exchange market opened at around MYR 4.16. Market participants avoided buying the Malaysian ringgit, as the Malaysian monetary authorities froze a bank account related to 1MDB, a government-run investment fund. Furthermore, a ratings company in the U.S. downgraded the rating of a major petroleum company in Malaysia, while the crude oil price has been falling. As a result, market participants continued selling the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit exchange rate reached the MYR 4.24 level. Toward the second half of the week, U.S. dollar-selling became more active, as the economic indices in the U.S. turned out to be weak and as a plan to control the appreciation of the U.S. dollar was mentioned. In reaction to this, the Malaysian ringgit rallied, and the U.S. dollar/Malaysian ringgit exchange rate returned to the level observed at the beginning of the month. In the end, trading closed at the lower-MYR 4.14 level to the U.S. dollar.

The market was closed on February 8 and 9 for the Chinese New Year holidays. The U.S. dollar/Malaysian ringgit exchange market opened at around MYR 4.16 on February 10, the following day. Due to the fact that market participants bought the Japanese yen against the U.S. dollar in order to avoid risks, the Malaysian ringgit appreciated against the U.S. dollar to the MYR 4.11 level. The remark made by FRB Chair Janet Yellen encouraged market participants to sell the U.S. dollar further, and the U.S. dollar/Malaysian ringgit exchange rate fell below MYR 4.10. Then, on February 11, the December industrial production in Malaysia was released, and the result turned out to be stronger than expected at 2.7% year-on-year. However, the impact on the market was minimal. On the contrary, the depreciation of Asian stock prices led the Malaysian ringgit to depreciate, and the U.S. dollar/Malaysian ringgit exchange rate reached the MYR 4.14 level. On February 12, market participants bought back the U.S. dollar before a holiday in the U.S., actively selling the Malaysian ringgit, which was weakening due to the depreciation of the crude oil price as well as the Asian stock prices. In the end, the U.S. dollar/Malaysian ringgit exchange rate rallied to the lower-MYR 4.18 level.

On February 15, the U.S. dollar/Malaysian ringgit exchange market opened trading at the lower-MYR

4.15 level. Market participants bought the Malaysian ringgit, thanks to the stability in the Asian stock market as well as the crude oil market, which led the U.S. dollar/Malaysian ringgit exchange rate to reach the mid-MYR 4.11 level. In the middle of the week, risk-averse sentiment in the market strengthened, which led the Malaysian ringgit to sell at the mid-MYR 4.21 level. However, the October–December quarter GDP of Malaysia was released on February 18, turning out to be stronger than expected in the market, and the Malaysian ringgit rallied against the U.S. dollar to the lower-MYR 4.15 level. Thereafter, risk-averse sentiment in the market and the depreciation of the crude oil price led the Malaysian ringgit to start selling again. In the end, trading closed at the MYR 4.22 level.

2. Outlook for This Month

The U.S. dollar/Malaysian ringgit exchange market is unlikely to move toward any direction and is therefore expected to remain within the current range of fluctuation in March.

The October–December quarter GDP of Malaysia was recently released. As export and manufacturing production remained strong, and while there were a number of negative factors such as the introduction of the Goods and Service Tax (GST) in April last year as well as the persistent depreciation of the crude oil price, the result was not as pessimistic as it was expected in the market. On February 18, the central bank of Malaysia (BNM) indicated a view in its statement, "Domestic demand will lead economic growth with the contribution of net exports." However, it should also be mentioned that there is a risk for the recovery to be temporary due to the decline of investment.

With regard to the crude oil market, there are mounting expectations for Saudi Arabia, Russia, Qatar, and Venezuela to coordinately adjust their production. However, the Minister of Petroleum and Mineral Resources of Saudi Arabia recently made a remark emphasizing that they would not reduce their oil production. Thus, the situation remains uncertain.

There are also other persistent risk scenarios, such as a subsidy cut and the reduction and postponement of economic stimulus measures, due to the decrease in governmental revenue caused by the depreciation of the crude oil price. Therefore, from a short-term perspective, the Malaysian ringgit exchange market is expected to follow the trends in the crude oil market, but it is unlikely that there will be a clear trend.

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

Indonesian Rupiah – March 2016

Expected Ranges	**Against the US$:**	**IDR 13,200–13,700**
	Against 100 rupiah	**JPY 0.80–0.87**
	Against the yen:	**IDR 114.79–124.54**

1. Review of the Previous Month

In February, the Indonesian rupiah strengthened against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate fell to temporarily reach the lower-IDR 13,000 level (the appreciation of the Indonesian rupiah against the U.S. dollar).

On February 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at around IDR 13,775. Even though the exchange rate temporarily reached the IDR 13,800 level on February 3, there were positive factors for the Indonesian rupiah, including the media report on the introduction of a negative interest rate by the Bank of Japan announced at the end of January, as well as the October–December quarter GDP in 2015, which turned out to be stronger than expected (+5.04% year-on-year). Thus, security investment capital flew into Indonesia, and market participants bought back the Indonesian rupiah.

Furthermore, in the U.S., FRB Chair Janet Yellen exhibited a dovish attitude, which further encouraged market participants to sell the U.S. dollar against the Indonesian rupiah. As a result, the Indonesian rupiah appreciated against the U.S. dollar and the exchange rate temporarily approached IDR 13,325 on February 11 for the first time in four months.

Thereafter, the central bank of Indonesia decided to cut the interest rate at its regular meeting held on February 18, as was expected in the market, thanks to stability in the Indonesian rupiah exchange market. Even though it was the second interest rate cut after the one in January, the market participants had already expected this outcome and therefore the impact on the foreign exchange market was minimal.

2. Outlook for This Month

The Indonesian rupiah is expected to remain stable this month.

In addition to the October–December quarter GDP in 2015, which turned out to be stronger than expected, the Indonesian government announced its decision to revise the negative list (a list that specifies business activities that are either entirely or conditionally closed to foreign investment). Thus, there are currently a number of positive factors in Indonesia for the first time in a while. As a result of this revision on the negative list, there will be a higher percentage of foreign investments approved, which would be taken positively abroad.

However, it should also be mentioned that the appreciation of the Indonesian rupiah observed last month was mainly based on external factors such as the depreciation of the U.S. dollar as well as the negative interest rate in Japan. Therefore, there are still risks for the Indonesian rupiah to depreciate sharply when negative factors grow abroad (such as in the economic downturn in China), which requires caution.

If the Indonesian rupiah exchange market remains stable, it is possible for the central bank to cut the interest rate again this month. However, the interest rate differentials between Indonesia and the U.S. are becoming smaller and smaller, which would make the central bank of Indonesia cautious about its monetary policy in the times ahead.

Yasunori Sugiyama, Manila Branch

Philippine Peso – March 2016

Expected Ranges	**Against the US$:**	**PHP 47.00–48.00**
	Against the yen:	**JPY 2.30–2.40**

1. Review of the Previous Month

In February, the U.S. dollar/Philippine peso exchange market opened trading at PHP 47.72 on Monday, February 1. While the Philippine peso appreciated against the U.S. dollar to PHP 47.62 as risk-averse sentiment was somewhat mitigated in the market on Monday, February 1, the crude oil price depreciated during the evening of the same day. As a result, market participants bought the U.S. dollar on Tuesday, February 2 to avert risks, and the U.S. dollar/Philippine peso exchange rate reached PHP 47.74. On Wednesday, February 3, U.S. dollar-buying was dominant again, and the U.S. dollar/Philippine peso exchange rate reached PHP 47.92. However, in the evening of the same day, the January ISM non-manufacturing index was released in the U.S. with a weak figure, which made it unlikely for the next interest rate hike to happen in the near future in the U.S. As a consequence, market participants sold the U.S. dollar on Thursday, February 4, and the U.S. dollar/Philippine peso exchange rate reached PHP 47.70. The exchange rate continued falling and reached PHP 47.65 on Friday, February 5. In the end, weekly trading closed at PHP 47.66.

On Monday, February 8, the market was closed in the Philippines due to the Chinese New Year. On Tuesday, February 9, the U.S. dollar/Philippine peso exchange market opened trading at PHP 47.76. The January employment statistics of the U.S. had been announced before the end of the previous week with somewhat weak figures, which made market participants less hopeful about the interest rate hikes in the U.S. in the times ahead. As a result, the U.S. dollar generally depreciated. On Wednesday, February 10, the following day, the U.S. dollar remained weak, and the Philippine peso appreciated against the U.S. dollar to PHP 47.44. In the evening of February 10, FRB Chair Janet Yellen made a dovish remark at the Congressional testimony, which led the U.S. dollar to depreciate further on Thursday, February 11, the following day. As a result, the U.S. dollar/Philippine peso exchange rate reached PHP 47.36. However, in the evening of the same day, the crude oil price and the stock prices in Europe and the U.S. depreciated, which fueled risk-averse sentiment in the market. As a consequence, market participants mainly bought the U.S. dollar in order to avert risks during the trading hours in Asia on Friday, February 12, the following day. Following this trend, the Philippine peso depreciated against the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate reached PHP 47.615. In the end, weekly trading closed at

PHP 47.51 to the U.S. dollar.

On Monday, February 15, the U.S. dollar/Philippine peso exchange market opened trading at PHP 47.4. Even though there were concerns over the conditions in the Chinese yuan exchange market after the Chinese New Year holidays, the market remained stable, keeping the overall Asian currencies strong at the beginning of the week. The depreciation of the crude oil price also slowed down, which mitigated risk-averse sentiment in the market. Following this trend, market participants bought the Philippine peso against the U.S. dollar, leading the Philippine peso to appreciate against the U.S. dollar to PHP 47.40 on Tuesday, February 16. However, the outcome of the negotiations among oil-producing countries regarding a production cut was not a hopeful one, which led the crude oil price to start depreciating again. As a result, risk-averse sentiment grew in the market and the Philippine peso depreciated against the U.S. dollar to PHP 47.67 on Wednesday, February 17. Thereafter, there was no clear trend in the market, and the U.S. dollar/Philippine peso exchange rate fluctuated within a narrow range between the PHP 47.50 level and the PHP 47.60 level. On Friday, February 19, weekly trading closed at PHP 47.665 against the U.S. dollar.

The U.S. dollar/Philippine peso exchange market opened trading at PHP 47.67 in the week starting on Monday, February 22. While some market participants continued buying the U.S. dollar in order to avert risk, other participants started selling the U.S. dollar, as the next interest rate hike in the U.S. was not likely to happen soon. As a result, there was no clear trend in the U.S. dollar/Philippine peso exchange market and the pair continued trading at around the PHP 47.50–47.60 level throughout the week.

On Monday, February 25, the U.S. dollar/Philippine peso exchange rate opened trading at PHP 47.75. The crude oil market remained a key factor for the U.S. dollar/Philippine peso exchange market, and the sharp depreciation of the crude oil price observed on the evening of February 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, February 26. The central bank of the Philippines (BSP) seems to have intervened in the market by selling the U.S. dollar, which kept the U.S. dollar from appreciating further. Thus, the U.S. dollar/Philippine peso exchange rate is currently around the PHP 47.90–48.00 level.

2. Outlook for This Month

The presidential election in the Philippines will be carried out on Monday, May 9. On the same day, there will also be an election for various levels of official posts, including half the seats in the Upper House and all the seats in the Lower House, in addition to the presidential election. The equivalent in Japan would be double elections for both houses of the Diet as well as elections for the prefectural governors, and for parliament, as well as for city mayors and councils, all held at the same time.

There will therefore be election campaigns at various levels. It seems that there has been an active flowing of funds since the beginning of 2016, in both the public and private sectors. In general, consumption in the Philippines become less vigorous in January after the Christmas holidays—the most important event in the country. However, the number of motorcycle sales by a Japanese manufacturer recorded positive year-on-year growth of 37% this year, showing an example of an extraordinary consumption trend. Consumption recorded positive growth of 8% even compared with that in December, when consumption becomes most vigorous in general. It is expected that consumption in the Philippines will become even more active in the times ahead toward the elections scheduled for May.

Such domestic consumption in the Philippines has been supported by OFW remittances, and the amount of such approached USD 2.5 billion in December. In 2016, the amount of OFW remittances is expected to record positive year-on-year growth exceeding 5% on an annual basis.

These positive factors for the Philippine economic condition supported by domestic consumption would have been reflected in the U.S. dollar/Philippine peso exchange rate by leading the Philippine peso to appreciate against the U.S. dollar. However, it should be mentioned that the Philippine peso exchange market tends to be affected by external factors, as is the case with other Asian currencies. When market participants expect an interest rate hike in the U.S., the U.S. dollar would appreciate against the Philippine peso, while if risk-averse sentiment grew globally in the market, it would also lead to the appreciation of the U.S. dollar against the Philippine peso. As it has become unlikely for the next interest rate hike to happen soon in the U.S. and as the depreciation of the crude oil price has slowed down for now, the U.S. dollar/Philippine peso exchange rate hit a ceiling at PHP 48.00 in January and returned to the mid-PHP 47 level.

If there are no more factors, the Philippine peso is expected to appreciate against the U.S. dollar. However, it will also be difficult to continue actively buying the Philippine peso before the elections, which would keep the Philippine peso from appreciating too rapidly. If the current confusion in the global monetary market persists, the Philippine peso would also remain weak.

Hiroaki Nakano, Singapore Treasury Division

India Rupee – March 2016

Expected Ranges	**Against the US$:**	**INR 67.00–69.50**
	Against the yen:	**JPY 1.56–1.68**

1. Review of the Previous Month

In February, the Indian rupee remained weak due to risk-averse sentiment in the market. Market participants continued selling the Indian rupee, and the U.S. dollar/Indian rupee exchange rate approached the all-time low for the rupee recorded at the end of August 2013.

On February 1, the U.S. dollar/Indian rupee exchange rate opened trading at around INR 68. The January manufacturing PMI of China turned out to be weaker than expected in the market, which led the crude oil price to depreciate, fueling risk-averse sentiment in the market. In reaction to this, the U.S. dollar/Indian rupee exchange rate rose to the lower-INR 68 level. However, on February 3, the January ISM non-manufacturing index in the U.S. was released with a weak figure, and President of the Federal Reserve Bank of New York William C. Dudley expressed concern over the appreciation of the U.S. dollar as well as the slowdown in interest rate hikes in the U.S. As a consequence, the U.S. dollar started depreciating and the U.S. dollar/Indian rupee exchange rate fell to the mid-INR 67 level on February 5.

On the evening of February 5, the January employment statistics of the U.S. were released with figures stronger than expected in the market. As a result, market participants grew hopeful again about the next interest rate hike in the U.S., leading the U.S. dollar to start appreciating on February 8. Furthermore, the crude oil price and financial stock prices in Europe depreciated, which fueled risk-averse sentiment in the market again. The U.S. dollar/Indian rupee exchange rate thus rose to the lower-INR 68 level.

The depreciation of the crude oil price slowed down on February 15, and the U.S. dollar/Indian rupee exchange rate started falling. Risk-averse sentiment in the market was mitigated, and the U.S. dollar/Indian rupee exchange rate temporarily approached INR 68. However, on February 25, the railway budget was released, and the media reported that the figure would increase by 20% from that in the previous fiscal year. This fueled concerns over fiscal deterioration, weakening the Indian rupee again. The U.S. dollar/Indian rupee exchange rate thus rose to the upper-INR 68 level. The exchange rate has been approaching the all-time low recorded in August 2013.

2. Outlook for This Month

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

Since January, the depreciation of the Indian rupee has been sharper than other resource countries and Asian currencies. It shows a clear contrast with the cases of the Indonesian rupiah and the Malaysian ringgit exchange markets, which recovered despite the persistent depreciation of the crude oil price.

The depreciation of the crude oil price would contribute to the amelioration of domestic consumption as well as trade balance. Therefore, from a long-term perspective, the excessive depreciation of the Indian rupee under a risk-averse sentiment is likely to be cancelled out by the depreciation of the crude oil price. However, from a short-term perspective, market participants seem to have finally started selling the Indian rupee, which had been relatively stable since the summer of last year.

The RBI decided to maintain the policy interest rate at the existing level on February 2. However, the RBI suggested that the budget plan for FY2016, which is to be out at the end of February, will be an important indicator and that it may lead to additional measures of monetary easing, if necessary. The RBI also revised its inflation outlook for FY2016 downward, which makes additional measures of monetary easing more necessary. However, there are still a number of factors of uncertainty, such as a rise in salaries and pensions for public servants. It is thus unlikely for the RBI to introduce additional measures of monetary easing so easily.

In order to control violent fluctuations in the Indian rupee exchange market, the Reserve Bank of India (RBI) is expected to carry out market interventions. However, the RBI has been less active in intervening in the market compared to the summer of 2013. It seems that the RBI has become more tolerant with the depreciation of the Indian rupee. While it is a matter of time for the Indian rupee to renew its all-time low, it is extremely difficult to predict how much the Indian rupee would depreciate further after that. It should also be mentioned that there are likely to be a considerate number of stop-loss orders, which may lead the U.S. dollar/Indian rupee exchange rate to temporarily rise sharply.

This report was prepared based on economic data as of March 1, 2016.

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