Mizuho Dealer's Eye

April 2016

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Mizuho Bank, Ltd.

Forex Department

Yu Takada, Forex Sales, Forex Department

U.S. Dollar – April 2016

Expected Ranges **Against the yen: JPY109.50–115.00**

1. Review of the Previous Month

The dollar/yen pair swung to and fro in March. It fell in the first half of the month before bouncing back thereafter. The pair dropped to the lower-112 yen mark on March 1. However, the People's Bank of China (PBOC) had lowered its deposit reserve requirement ratio the previous day, so as risk aversion eased off, the currency pair rallied to the upper-113 level. It temporarily hit a monthly high of 114.56 on March 2 on the better-than-expected results of the ADP employment data for February, but with U.S. interest rates sliding, the pair was also pushed back to the lower-113 yen range. It strengthened to the lower-114 yen mark on March 3, though it then dropped to the lower-113 yen level on the bearish results of the U.S. Non-manufacturing ISM Report on Business for February. The closely-watched U.S. employment data for February was released on March 4. The nonfarm payrolls figure was significantly higher than market expectations, with the currency pair gaining to the lower-114 yen level directly after the announcement, but with average wages actually falling for the first time since December 2014, the pair then plummeted to the lower-113 yen mark.

The pair opened the following week at the upper-113 yen range on March 7. It then dropped to the upper-112 yen level on March 8 after China's trade balance for February fell sharply. Risk aversion continued on March 9, with the pair weakening to the lower-112 yen mark. The ECB Governing Council decided upon a new easing package when it met on March 10. The package was more impressive than the markets had predicted, with the currency pair temporarily climbing to the mid-114 yen level as a result. However, ECB President Mario Draghi adopted a prudent stance towards further rate cuts in his press conference after the meeting, so the pair fell back to the upper-112 mark. It rallied to the upper-113 yen range on March 11 as the mood of risk aversion eased off.

The pair moved without a sense of direction at the start of the next week on March 14, though it dipped to the lower-113 yen mark on March 15 after the Bank of Japan's Monetary Policy Committee (MPC) decided to leave policy unchanged. The markets also reacted badly to the release of the February U.S. retail sales data, with the previous month's figure revised down sharply, so the pair fell to the upper-112 range. The FOMC released its federal funds rate projections on March 16. These were downgraded sharply, while FRB Chair Janet Yellen also struck a dovish tone at her press conference, so the pair dropped to the lower-112 yen mark. The greenback saw more selling on March 17, with the pair temporarily hitting 110.67 yen, its low for 2016. It was bought back on March 18 to end the week trading at the mid-111 yen level.

With the governor of the San Francisco FRB and several other FRB chiefs dropping hawkish comments, expectations for a rate hike rose from March 21 to March 23, with the pair also climbing to the upper-112 mark. With the Easter holidays looming, March 24 saw some positions adjustments, with the pair moving firmly. Amid thin trading on March 25, the pair rose to end the week at the lower-113 yen range after the U.S. GDP data for October–December (third preliminary estimate) was revised upwards.

With reports emerging that FRB Chair Janet Yellen was treading carefully when it came to a rate hike, the pair moved bearishly between the mid-113 yen mark and the lower-112 yen level from March 28 to the end of the month. In the end, it finished March trading at 112.57 yen.

2. Outlook for This Month:

The dollar/yen pair is expected to move flatly this month without a clear trend. The market will continue to move with an eye on U.S. monetary policy, with the pair looking for a sense of direction in the mixed results of U.S. economic indicators and the bullish and bearish comments of FRB officials.

Turning the U.S. monetary policy first, and the FOMC is set to meet from Tuesday April 26 to Wednesday April 27. At the last meeting over March 15–16, the economic outlook in the FOMC's statement was upgraded, with the January phrase about how 'economic growth slowed late last year' replaced by wording that 'economic activity has been expanding at a moderate pace.' The statement also struck a bullish tone about employment conditions with a comment about the 'additional strengthening of the labor market.' FRB Chair Janet Yellen also commented that 'the U.S. economy has been very resilient in recent months in the face of shocks.' Indeed, consumption, jobs and inflation indicators are moving firmly on the whole. As a result, though concerns of an economic slowdown flared up from the start of the year to the middle of February, they have now dropped off and risk sentiments are currently on the up. Nonetheless, the FOMC will probably hold off from raising rates this time because of fears about an economic slump overseas. In a speech on March 29, Yellen said that a cautious approach to rate hikes was 'especially warranted.' For the time being, the FOMC will probably keep close watch on concerns of a slowdown in China and the other emerging markets as well as the risk of crude oil and other commodity prices dropping further. If the FOMC decides not to lift rates against the backdrop of the strong U.S. economy, this will probably push stocks and crude oil prices upwards. This in turn is likely to support the currency pair's movements.

Considering the above, market participants will need to study U.S. economic indicators this month. When it comes to indicators related to jobs and inflation, the March employment statistics (released Friday, April 1) and the March CPI data (released Thursday, April 14) are likely to prove particularly important. If sluggish wages growth leads to deflationary concerns and the data reveals that the pace of jobs growth is slowing, this will probably lead to attempts on the pair's downside. Other indicators to watch out for include the April Non-Manufacturing ISM Report on Business (Tuesday, April 5), the March retail sales data (Wednesday, April 13), the March Housing Starts figure (Tuesday, April 19) and the March Existing Home Sales indicator (released Wednesday, April 20).

Turning to the Japanese side, and the Bank of Japan's Monetary Policy Committee (MPC) will be meeting over Thursday, April 27–Friday, April 28. The BOJ's policy management continues to surprise market participants and it is hard to gauge whether the bank will introduce further easing based on prior comments by high-ranking figures, but if the BOJ does step down on the easing pedal, this is expected to lead to some temporary yen selling. As with the previous time, though, the impact of such a move may be muted.

Dealers' Market Forecast

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

Bullish on the dollar (6 bulls: 109.50–120.00, Core: 110.50–116.25)

Fujisaki	110.00 – 118.00	The yen is likely to slide on expectations for more overseas investments entering the new Japanese fiscal year. There is still lingering demand for yen buying in relation to the repatriation of dividends from overseas and so on, but the dollar/yen pair will be buoyed by direct investments and purchases of overseas securities. Policy expectations on the Japan side will also help to push the yen lower.
Kato	111.50 – 120.00	April will probably see some Japanese investment in overseas bonds at the start of the new fiscal year, with some investors expected to open hedges. With the Ise-Shima G7 Summit also looming, the Japanese government is likely to announce some economic stimulus as a first step to slamming the brakes on risk-off movements related to the political and economic situation.
Yano	110.00 – 115.00	April marks the start of the new Japanese fiscal year. Attention will focus on investments in overseas securities by Japanese institutional investors and pension funds. With the BOJ introducing negative interest rates, these investments are expected to be brisker than in regular years. The FOMC is expected to hold off from raising rates in April, but the possibility of such a move in June will probably act to support the dollar/yen pair.
Takada	109.50 – 115.00	The market will continue to move with an eye on U.S. monetary policy, with the pair looking for a sense of direction in the mixed results of U.S. economic indicators and the bullish and bearish comments of FRB officials. If the U.S. releases some bullish employment figures or retails sales data, for example, the pair is likely to move firmly.
Sato	110.00 – 116.00	Expectations for investments in overseas securities by Japanese institutional investors are likely to flare up entering the new fiscal year. With global financial markets regaining composure at present, pressure for yen buying is likely to ease off, with the dollar/yen pair moving firmly. However, with the U.S. monetary policy normalization process expected to proceed at a slower pace than previously thought, the pair's room on the topside will also be capped.
Omi	111.50 – 116.50	As the yen-buying flow eases off toward the start of the new Japanese fiscal year, the dollar/yen pair is expected to move firmly. Expectations for an early FRB rate hake have waned, but with the U.S. releasing some fairly-healthy indicators, the dollar index is likely to move firmly. Market participants should also expect the dollar/yen pair to potentially be pushed up by dollar buying due to new flows.

Bearish on the dollar (5 bears: 107.00–115.00, Core: 108.00–114.00)

Yamashita	107.00 – 114.00	With an upper house election and a G7 summit looming, the Japanese government is likely to push the BOJ to ease further in order to return to the trend of stock bullishness and yen bearishness. Judging from recent actions, though, market participants would be wise to focus on the limited room the BOJ has for any further easing. The dollar/yen pair will have its downside tested at times.
Nishijima	108.00 – 114.50	Expectations for an early FRB rate hike have dropped off sharply. As the markets continue to search for signs that a rate hike could occur in June, there is unlikely to be any active dollar buying. Japanese institutional investors may pile into overseas bonds entering the new fiscal year, but most of these will probably be hedged due to concerns of yen appreciation. Amid a dearth of clues or factors pointing to dollar bullishness against the yen, the currency pair is likely to move with a heavy topside throughout April.
Shimoyama	108.00 – 114.00	Based on comments by FRB Chair Janet Yellen, an April U.S. rate hike seems very unlikely. Market participants should be wary of Japanese institutional investors selling the yen to invest overseas at the start of the new fiscal year, but these moves will only be seasonal in nature, with speculators unlikely to follow suit as they focus on Japanese and U.S. monetary policy. The dollar/yen pair is expected to trade with a heavy topside.
Nishitani	108.00 – 114.00	With expectations for a U.S. rate hike dropping off sharply, it will remain difficult for speculators and other investors to build up dollar long positions. If we assume the U.S. will only lift rates twice this year, then although June could see a rate hike, it will take some time before the markets price in such a move, so market participants should be wary of the dollar/yen pair trending lower this month.

Moriya	109.00 – 115.00	Based on the March FOMC meeting and comments by FRB Chair Janet Yellen, it is hard to imagine the FOMC lifting rates any time soon. Global stock markets and crude oil prices seem to be regaining some composure at present, but judging from the heaviness of the dollar/yen pair's topside, the pair could continue sliding, so caution will be needed.

Takaaki Shimada, Forex Sales, Forex Department

Euro – April 2016

Expected Ranges **Against the US$: US$1.1000–1.1900**
Against the yen: JPY124.00–133.00

1. Review of the Previous Month

The euro rose in March.

It strengthened early March on the U.S. February employment data and comments by ECB President Mario Draghi after the ECB Governing Council meeting. The euro/dollar pair began the month trading at the upper-$1.08 mark on March 1. It then fell temporarily to the lower-$1.08 level after Draghi struck a bearish tone about inflation in his publicly-released statement. It rose to the mid-$1.09 range on March 3 on the weak results of the U.S. Non-manufacturing ISM Report on Business for February. It then moved erratically on March 4 following the release of the U.S. employment data for February. With the nonfarm payrolls result beating market expectations, the pair fell to around $1.09 directly after the announcement, but it then rocketed back to the mid-$1.10 mark for a time after average wages fell for the first time since December 2014. The German industrial production data for January was released at the start of the following week on March 8. At +3.3 month-on-month, the result was sharply up on expectations for a rise in the region of +0.5% m-o-m, with the euro/dollar pair also jumping back to the mid-$1.10 level. The ECB Governing Council introduced some new easing measures when it met on March 10. The package exceeded prior expectations, with the euro subsequently dropping to a monthly low of $1.0822. In his press conference after the meeting, though, ECB President Mario Draghi mentioned that 'we don't anticipate that it will be necessary to reduce rates further.' As a result, the pair leaped back to around $1.12.

It rose further mid-March in the wake of the FOMC meeting. The euro was sold back to $1.11 at the start of the next week, on March 14, and it continued hovering at this level until the FOMC meeting. When it met on March 16, the FOMC decided not to lift interest rates. It also downgraded its federal funds rate projections. This downgrade was sharper than previously expected, with the euro/dollar pair subsequently soaring to the mid-$1.12 level. It then gained to the lower-$1.13 mark on March 17 after the eurozone CPI data for February beat market forecasts. With the euro then being sold back in the run up to the weekend, the pair dropped to the upper-$1.12 range on March 18.

It weakened late March on comments by FRB officials, though it then bounced back to renew highs. At the start of the next week, on March 21, John C. Williams and Dennis P. Lockhart, two FRB chiefs, both struck a bullish tone towards the U.S. economy while touching on the possibility of a rate hike at the April FOMC meeting. As a result, the currency pair dropped to the mid-$1.12 level. It then plunged temporarily to the upper-$1.11 mark on March 22 after Belgium was hit by a wave of terror attacks. Charles Evans, Patrick T. Harker, James Bullard and several other high-ranking FRB officials then made a series of hawkish comments, with the pair subsequently weakening to the mid-$1.11 level on March 25. It then rose to the lower-$1.12 range at the start of the following week, on March 28, when the U.S. core PCE deflator for February dropped below expectations. FRB Chair Janet Yellen gave a speech on March 29. In contrast to the bullish comments made the previous week by several regional FRB presidents, Yellen struck a dovish tone, saying that 'the FOMC will adjust monetary policy as warranted.' As a result, the euro/dollar pair rose to right around $1.13. It continued trending upwards thereafter to hit a monthly high of $1.1412 on March 31. It subsequently dropped back slightly to end the month trading at the upper-$1.13 mark.

2. Outlook for This Month:

The euro/dollar pair is expected to move firmly in April.

The ECB Governing Council agreed upon a new easing package when it met in March. It decided to: (1) lower the key refinancing operation interest rate from +0.05% to +0.00%; (2) lower its marginal lending rate from +0.30% to +0.25%; (3) cut the deposit facility rate from -0.30% to -0.40%; (4) increase the monthly purchases of its expanded asset purchase programme (APP) from 60 billion euros to 80 billion euros; (5) expand the target assets of the APP to include non-bank corporate bonds; and (6) introduce a second targeted long-term refinancing operation (TLTRO2), starting in June 2016. Market expectations had already ballooned on prior comments by ECB President Mario Draghi about further easing, but it would be fair to say this comprehensive easing package was above and beyond anything expected beforehand. In his press conference after the meeting, though, Draghi hinted that there were limits to how much the ECB would ease going forward, so the euro then staged a recovery. Bundesbank Governor Jens Weidmann then commented that although the ECB had to act in March, 'decisions overall went too far in my opinion.' This added to the impression that there were considerable hurdles in the way of any further easing. Though the ECB Governing Council is likely to adjust monetary policy in April as a matter of course, for the time being ECB officials will probably find it harder to drop hints about further easing. As a result, it now seems there are limits to how much further the ECB can guide the euro lower using monetary policy. Under these circumstances, the single currency will probably face upward pressure. In the U.S., meanwhile, monetary policy suddenly took a hawkish turn late March following comments by several regional FRB presidents, but a speech by FRB Chair Janet Yellen set policy back where it had been previously, namely with the FRB adopting a cautious stance with regards to normalization. Based on all of this, it seems very unlikely that the FOMC will lift rates again when it meets in April, with the FRB remaining wary when it comes to normalizing monetary policy. This is also likely to contribute to the firmness of the euro/dollar pair. Furthermore, it seems the commodity markets also contain some latent factors that could support euro bullishness. Though crude oil futures have cooled off at present, it does not seem that the supply and demand balance or other fundamentals have improved. Some observers have warned that funds could flood out of commodity markets at a faster pace due to investor portfolio balancing needs in relation to the start of the new quarter. Indeed, there seems to be quite a high risk that crude oil futures could trend downwards. If they drop to lows again, this will hit the financial markets in the form of a deterioration in risk sentiments, with euro short covering likely to occur as a result. Based on the aforementioned factors, the euro/dollar pair is expected to move firmly in April.

Dealers' Market Forecast

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

Bullish on the euro (10 bulls: 1.0900–1.1800, Core: 1.1100–1.1700)

Fujisaki	1.1000 – 1.1700	There are limits to how much further the euro can fall on the back of ECB monetary policy. Speculative euro shorts have accumulated to high levels, but some unwinding is expected from here on. However, there are deep-rooted expectations for further U.S. rate hikes within the year, while there are also concerns about a UK exit from the EU, so the euro's topside is also likely to be held down.
Yamashita	1.1100 – 1.1800	ECB President Mario Draghi's comments after the last ECB Governing Council meeting seemed to hint at an end to further easing, so more policy accommodation is unlikely in the near future. With expectations for further FRB rate hikes also waning, even if the ECB did ease again, this would probably only have a limited impact on the euro, with the single currency likely to move bullishly this month.
Yano	1.0900 – 1.1500	The ECB is likely to continue to monitor the impact of its March easing package for the time being. With expectations for further U.S. rate hikes also on the slide, the euro will probably move firmly in April. As for risk factors, the pair's topside will probably be held down if the ECB indicates its intention to loosen policy again.
Takada	1.1000 – 1.1700	With the ECB easing off on the easing pedal, the euro is expected to move firmly as the U.S. relaxes the pace of its tightening program. The single currency will also be sold in relation to the Brexit issue, but neither side is likely to strike a decisive blow before the date of the referendum, so the euro's room on the downside will probably be capped.
Sato	1.1100 – 1.1700	There is a growing consensus that the U.S. monetary policy normalization process will occur at a slower pace than expected following bearish comments by FRB Chair Janet Yellen. Furthermore, the euro only faced limited downside pressure after the ECB announced a new easing package in March, which suggests the euro will move firmly this month on an unwinding of short positions and the eurozone's current account surplus.
Nishijima	1.1000 – 1.1700	Market participants should be wary of European currencies facing selling pressure at times in the run up to the June UK referendum on whether to leave the EU, but with ECB President Mario Draghi pouring cold water on the idea of further easing after the last ECB Governing Council meeting, it is hard to imagine euro-selling sentiments growing stronger. The euro/dollar pair is also likely to be boosted by dollar selling as expectations for further U.S. rate hikes ease off.
Omi	1.1100 – 1.1700	The euro/dollar pair is expected to continue facing upwards pressure. With expectations for an early FRB rate hike on the wane, investors are unwinding their dollar long positions, so the euro also unlikely to weaken. With the ECB introducing such a bold package of easing last month, it is unlikely to make any further moves this month. The dollar/yen pair could make significant gains this month on dollar bearishness.
Shimoyama	1.1100 – 1.1700	It seems the ECB has slammed the brakes on monetary easing for now, so the euro is unlikely to weaken further. Furthermore, with FRB Chair Janet Yellen striking a cautious stance with regards to U.S. rate hikes, the dollar could also see further selling this month. With speculators also moving to cover their short positions, the euro is expected to climb higher in April.
Nishitani	1.1100 – 1.1700	With expectations for U.S. rate hikes dropping off sharply, the dollar is likely to be sold across the board on several occasions. The UK will be holding a referendum on whether to leave the EU, while the eurozone as a whole continues to face geopolitical risk. In the end, though, these will only lead to some temporary euro bearishness, with the single currency likely to trend higher on the whole.
Moriya	1.1100 – 1.1700	The ECB just recently introduced a new package of easing, with ECB President Mario Draghi also voicing negative comments about further easing after the March meeting, so expectations for further policy accommodation are unlikely to rise for the time being. With expectations for early U.S. rate hikes also declining, the euro is expected to move firmly in April.

Bearish on the euro (1 bear: 1.0700–1.1400, Core: 1.0700–1.1400)

Kato	1.0700 –	The markets seem to be over the peak when it comes to risk-off euro position adjustments. The euro/dollar pair is unlikely to break sharply out of its \$1.05–\$1.15 range. As a result, as the market regains composure, market

	1.1400	participants will probably build up their euro short positions again.

Hidetoshi Honda, Europe Treasury Department

British Pound – April 2016

Expected Ranges	**Against the US$:**	**US$1.4000–1.4700**
	Against the yen:	**JPY157.00–169.00**

1. Review of the Previous Month

In March, the pound bottomed out and bounced back against the dollar and yen. However, though it managed to pare back 80% of its February losses against the greenback, it clawed back less than 50% of its February losses against the Japanese unit. With regards to the euro, meanwhile, the prevailing trend throughout the month was one of pound bearishness. If the major currencies were lined up in order of strongest to weakest in March, the euro would top the list, followed by the pound, the yen and finally the dollar. This reflects the strong focus last month of the monetary policies of each nation and economy, with the ECB seeming to draw a line under any further easing, for example, and expectations for further FRB rate hikes dropping off. Sterling's movements were shaped on the whole by factors related to the euro and the dollar, with UK factors hardly seeming to have any impact on the unit.

The pound showed signs of firmness at the start on the month. However, the UK released several bearish economic indicators around this time. The February PMIs (Manufacturing on March 1, Construction on March 2, and Services on March 3) all moved weakly, for example, while February house price indices (Nationwide and Halifax; released March 3) also dropped below market expectations. If pushed to give a reason for the pound's firmness, one could point to March 2 comments by Bank of England (BOE) Deputy Governor Jon Cunliffe that seemed to sound a warning about UK housing market conditions, but it seems unlikely that this led to higher expectations for a BOE rate hike and subsequently to pound buying. The June 23 referendum on whether to leave the EU could hardly be said to be a new factor either, so it seems there were no particular factors behind sterling's bullishness apart from some 'adjustment' following the sharp falls in the latter half of February.

Thereafter, the currency markets were shaped on the whole by the direction of monetary policy. First up was the ECB Governing Council meeting on March 10. This saw the announcement of a bolder-than-expected easing package, with the ECB lowering its policy rates (including its key refinancing rate) while also expanding the scale of its asset purchase program and adding corporate bonds to its list of targeted assets. The euro moved bearishly across the board directly after the announcement, but it shot back up after ECB President Mario Draghi commented in his subsequent press conference that 'we don't anticipate that it will be necessary to reduce rates further.' The pound followed suit by plunging and then shooting back up against the dollar, but it moved in the opposite direction against the single currency, with sterling initially soaring before plummeting back down.

From the start of the following week, on March 14, the pound went through a phase of adjustive bearishness. It fell further when the pound/yen pair dropped sharply after the March 15 Bank of Japan Monetary Policy Committee (MPC) meeting (some observers were expecting further easing, but it maintained the status quo, as broadly expected). However, it bottomed out again following the U.S. Federal Open Market Committee (FOMC) meeting on March 16. The FOMC kept policy rates unchanged, as most market participants had expected, but the federal funds rate projections of FOMC members were clearly revised downwards (for example, the median projection for the end of 2016 was down 50bp on last December's projection). This led to across-the-board dollar bearishness, with sterling also rising sharply against its U.S. counterpart.

2. Outlook for This Month:

The pound is expected to move flatly with firm undertones in April. Around mid-March, crude oil prices and U.S. stock indicators, etc. broke above their end-of-2015 levels. There were some erratic movements on the back of financial market turbulence directly after the turn of the year. This was probably down to concerns about falling asset investment liquidity following the U.S. decision to start lifting interest rates in December last year. However, the fear-led turbulence eased off: after the FRB decided not to lift rates again on March 16; and FOMC members downgraded their federal funds rate projections. At the time of the December decision, though, the market consensus was that the FRB would only lift rates by around a total of 50bp in 2016, so the March downgrade basically just saw the FRB shifting its forecast more closely in line with market speculation. The turbulence from January onwards can also be appraised as an 'unnecessary movement' that reflected an FRB stance towards rate hikes that seemed inappropriately optimistic given the reality of the situation. If so, it seems only natural to expect the markets to be adjusted in the opposite direction to these January movements. In this pound's case, this would see the unit essentially undergoing an adjustive appreciation for the time being.

Yet the pound's topside is unlikely to edge up cleanly with no trouble along the way. This is because it will be weighed down by uncertainty in the run up to the June referendum. If the UK does leave the EU, overseas investors will steer clear of the UK on uncertainty about free trade agreements. This alone is likely to have a major impact on slowing the UK economy, but outflows from financial institutions (back to continental Europe) are expected to prove a particularly large impediment to UK growth. It still seems unlikely that the citizens of the UK will choose to leave the EU, but doubts will remain right up until the results are finally in. At the same time, opinion polls before the Scottish referendum in September 2014 and the UK general election in May last year turned out to be at odds with the actual results, so this year's referendum is also likely to remain fraught with uncertainty.

When it comes to BOE monetary policy, meanwhile, it still seems likely that expectations for a rate hike by mid-2016 will flare up again if crude oil prices bounce back to $50/barrel (Brent), but this is unlikely to impact sterling's movements, at least until the referendum is out of the way. As a result, it seems the BOE's MPC meeting on April 14 is unlikely to provide any particularly noteworthy factors.

As for UK economic indicators, market participants should pay most attention to inflation related figures such as the March CPI data (released April 12) and the December–February average wages data (released April 20), though none of these are expected to have a significant impact on the pound's movements.

Finally, one worrying possibility to bear in mind is of the UK being hit by the kind of suicidal terrorist attack that hit Brussels on March 22. This would of course have a terrible human and economic cost, but it is also important to be aware of the potential impact this might have on the Brexit referendum (it could boost the leave camp).

Miki Yamaguchi, Sydney Branch

Australian Dollar – April 2016

Expected Ranges	**Against the US$:**	**US$0.7400–0.7850**
	Against the yen:	**JPY82.00–88.00**

1. Review of the Previous Month

In March the AUD/USD pair rose sharply from mid-USD0.71 to the lower-USD0.77 mark.

It began the month trading at the mid-USD0.71 level on March 1. It then rose slightly to the upper-USD0.71 mark after the board of the Reserve Bank of Australia (RBA) decided to keep the cash rate fixed at 2.00%. The Australian GDP data for October–December was released on March 2. At +3.0% year-on-year, the figure was up significantly on market forecasts for a rise of +2.5% y-o-y, with the Australian unit subsequently shooting up to the lower-USD0.72 range. It then rose to the USD0.73 mark after its 200-day moving average topped USD0.7260 on rising crude oil and iron ore prices. The greenback was sold on March 4 on bearish U.S. economic indicator, with the currency pair rising further to hit the upper-USD0.73 level. The U.S. employment data for February was released on March 5. At +242,000 month-on-month, the nonfarm payrolls figure was up on forecasts for a rise in the region of 195,000. The average hourly wages indicator was down 0.1% on the previous month, though, so the data did not lead to rising expectations for an early U.S. rate hike, with the AUD/USD pair subsequently climbing to mid-USD0.74. It then extended its gains to the upper-USD0.74 on March 7 as commodity prices soared, with iron ore up 18% and crude oil 5%.With crude oil prices then rising another 4%, the pair broke through the key USD0.75 barrier on March 9. As risk appetite increased on bullish stocks and crude oil prices, the pair rose to the upper-USD0.75 level on March 11.

It rose to just below USD0.76 at the start of the next week, on March 14, though it then dropped to the lower-USD0.75 mark as commodity prices dipped. It then slipped to the mid-USD0.74 level on March 15 as commodity prices continued to slide. However, the greenback was then sold on March 16 on the dovish (anti-tightening) results of the U.S. FOMC meeting. As a result, the currency pair topped USD0.75 once more. On March 18, Australia released some mixed employment data for February, but the dip in the unemployment rate was warmly received and the currency pair strengthened to the USD0.76 range. It hit a high at the upper-USD0.76 mark on March 19 as commodity prices rose, but it then dropped to the USD0.75 range on adjustive selling.

It jumped to the USD0.76 level again on March 22 after RBA Governor Glenn Stevens expressed the opinion that 'the local economy has been improving and the financial system overall gaining in resilience.' However, the U.S. dollar was then bought on a series of hawkish (pro-tightening) comments by high-ranking FRB officials, with the AUD/USD pair dropping temporarily below USD0.75. It now seemed to be at a good price and it subsequently returned to the lower-USD0.75 mark. On March 29, FRB Chair Janet Yellen commented that when it came to rate hikes, the FRB should 'proceed cautiously' while considering global economic risks and so on. The U.S. dollar was sold as a result and the currency pair rallied to the lower-USD0.76 level. It made further gains on March 31 to hit a high of USD0.7723.

2. Outlook for This Month:

The AUD/USD pair is expected to move flatly in April, with market participants focusing on the April 27 release of the Australian consumer price index (CPI) data for October–December.

The pair soared by 8% in March to hit the USD0.77 range. As outlined below, there were three reasons for this bullishness.

Firstly, though Australia has low inflation, it has kept monetary policy unchanged since May last year (the cash rate has remained at 2.00%). In contrast, at the last FOMC meeting, members downgraded their federal fund rate projections (the dot chart) from four rate hikes in 2016 to just two (both estimated to be 25bp). The greenback was sold on the sharp downgrade. With the ECB also introducing further easing and the Reserve Bank of New Zealand (RBNZ) lowering interest rates in March, funds flowed into the Australian dollar on this divergence in the monetary policy of Australia and other nations.

Secondly, commodity prices rose sharply entering March. NY crude oil futures (WTI) rose by 11% on rising expectations that oil-producing nations would keep a lid on any output increases, with the International Energy Agency (IEA) also commenting in its monthly report that crude oil prices 'might have bottomed out.' The price of iron ore (62%), Australia's main export item, also rose by 6%. As a commodity currency, the Australian dollar was also pulled up by these movements.

Finally, the Australian unit's 200-day moving average finally topped the mid-USD0.72 mark for the first time since September 2014, with the unit technically moving into a bull market. Since breaking through this level on March 2, the Australian dollar has appreciated at a faster pace, with the unit trending above this level for a month now.

The point to consider is whether the aforementioned trends will continue from here on. The RBA has commented that 'continued low inflation would provide scope for easier policy, should that be appropriate to lend support to demand,' so it is likely to keep monetary policy unchanged until the CPI data is released late April. On the technical side of things too, the Australian unit will be supported at the 200-day moving average of mid-USD0.72. As for commodity prices, though there are growing hopes that oil-producing nations will freeze output, these do not seem grounded in reality and prices may well stop rising, so these are unlikely to support the Australian dollar's movements. Based on the aforementioned mixture or bullish and bearish factors, the Australian unit is expected to move flatly at highs this month.

Katsuhiko Takahashi, Americas Treasury Department

Canadian Dollar – April 2016

Expected Ranges	**Against the US$:**	**C$1.2600–1.3500**
	Against the yen:	**JPY81.20–91.20**

1. Review of the Previous Month

Crude oil prices bounced back at the start of the month on the movements of OPEC, Russia and other oil-producing nations. During this time, the Canadian dollar saw more buying after the markets reacted warmly when Canada's GDP data for December significantly outperformed prior expectations. As a result, the USD/CAD pair crashed from the mid-C$1.35 mark to renew a low for the year of C$1.3470. The Canadian GDP data for October–December was up 0.8% on the same period the previous year. Though this was down on July–September's figure of +2.4%, it still beat market expectations for flat growth. The U.S. then released its employment data for February, with the nonfarm payrolls figure significantly beating prior forecasts. The greenback was subsequently bought and the currency pair rose to around C$1.3470. It faced strong pressure for sell-backs at this high price, though, so it was soon pushed back to the lower-C$1.33 level. On March 9, the Bank of Canada kept its policy rate fixed at 0.5%, as broadly expected. The accompanying press release stated that 'the risks to the profile for inflation are roughly balanced,' 'the overall balance of risks remains within the zone for which the current stance of monetary policy is appropriate,' and 'the near-term outlook for the economy remains broadly the same as in January.' It also commented that 'U.S. expansion remains broadly on track.' All this was more optimistic that market participants had expected, so the Canadian dollar was bought back and the currency pair plummeted from the lower-C$1.34 level to the lower-C$1.33 mark.

The Canadian unemployment rate for February was released towards mid-March. At 7.3%, it was unexpectedly up on January's figure of 7.2%. This was the first deterioration since March 2013. The number of people in work also dipped by 2,300 to slide for the second successive month, another unexpected result. The Canadian unit was sold as a result. However, with crude oil continuing to be bought back, the unit then received a boost when the International Energy Agency (IEA) commented that crude oil prices might have bottomed out, with the USD/CAD pair temporarily dipping to C$1.3168. Crude oil was sold back mid-March and the Canadian dollar followed suit, with the pair rising to the C$1.34 range for a time. However, the greenback was then sold on expectations that the much-anticipated FOMC meeting would yield news that interest rates would be lifted at a slower pace in 2016. With crude oil also bought on a sense that it was undervalued, the currency pair broke below C$1.3. The Canadian unit was then bought on the warm reaction to the bullish Canadian retail sales data for January, with the pair dropping to C$1.2924 for a time. However, the CPI data was released at the same time and this showed no growth, so any reactive Canadian-dollar buying was muted in nature. The greenback was bought late March on a series of positive comments about rate hikes by FRB officials, with the USD/CAD pair rising to C$1.3296 for a time. However, the U.S. dollar then weakened on dovish comments by FRB Chair Janet Yellen, so the pair returned to its previous level. Risk appetite then increased as expectations for an April U.S. rate hike dropped off, with commodity currencies also rising in tandem. During this time, Canadian-dollar buying was also spurred on by the bullish results of Canada's GDP data for January. As a result, the currency pair fell temporarily to C$1.2858. It then underwent some adjustment to end the month trading at C$1.3005.

2. Outlook for This Month:

The Canadian dollar will continue to be swayed by the movements of crude oil and other commodity prices. Crude oil prices are currently rebounding, so commodity currencies are now being bought at lows after having been sold off up until last year. It seems crude oil prices have bottomed out thanks to an improved outlook with regards to the supply side, with major oil-producing nations in talks about adjusting output, for example, and oil production also slowing in North America. However, the demand side remains fraught with pessimism about the global economy, so it will probably take some time before commodity prices rise further. As for interest rates, while the U.S. is expected to lift rates at a slower pace going forward, the Bank of Canada is facing less pressure to ease policy further, so interest-rate differentials are likely to shrink from here on. With commodity currencies undergoing some adjustment, the Canadian dollar will be the most likely candidate for buy-backs during phases of rising risk appetite.

Shimon Yoshida, Seoul Treasury Office

Korean Won – April 2016

Expected Ranges	**Against the US$:**	**KRW1,130–1,180**
	Against the yen:	**JPY9.62–10.10 (KRW100)**
		(KRW9.90–10.40)

1. Review of the Previous Month

In March, the USD/KRW pair's movements were largely shaped by some unwinding to the risk-off movements that had prevailed since the end of last year. With Chinese stocks and crude oil prices moving firmly, the pair fell on a monthly basis for the first time in five months.

The pair fell at the start of the month as risk sentiments improved. It opened trading at KRW1231.0 on March 2, down 5.7 won on the end of February. With geopolitical risk rising in relation to North Korea, the pair soon hit its March high of KRW1235.9. However, it trending downwards from March onwards on RMB bullishness and the firm results of the U.S. Manufacturing ISM Report on Business for February. The trend continued after the release of the U.S. employment data for February, with the pair dipping below KRW1200 on March 7 for the first time in roughly a month. However, risk sentiments deteriorated again on March 8 when China released a sluggish trade balance for February, with the pair's losses pared back for a time.

It fell mid-March as market participants kept a close watch on the stance of each central bank. When the Bank of Korea's Monetary Policy Committee (MPC) met on March 10, it decided to keep policy rates unchanged, as broadly expected. In his subsequent press conference, BOK Governor Lee Ju-Yeol indicated that current interest rates were accommodative enough. This hawkish stance sent the currency pair trending downwards again. Risk sentiments then improved after the ECB Governing Council decided to ease further at its much-anticipated meeting, with the USD/KRW pair also weighed down by RMB bullishness in China. The Bank of Japan's MPC meeting on March 15 contained no surprises. The FOMC then met on March 16. The meeting was more dovish than expected, with the pace of rate hikes downgraded from four times to two times in 2016, for example. This also pushed the currency pair lower.

The pair moved with a heavy topside at the end of the month. With South Korean stocks also renewing three-month highs for a time, the pair fell to a monthly low of KRW1153.6 on March 22. With a number of regional FRB chiefs then voicing hawkish comments, the pair's losses were gradually paired back, but with the won facing more buying pressure from South Korean exporters towards the quarter's end, the pair moved with a heavy topside. In the end it closed the month around KRW1143, down by approximately 93 won on the end of February.

2. Outlook for This Month:

The USD/KRW pair is expected to move without a sense of direction in April.

In March, the pair's movements were largely shaped by some unwinding to the risk-off movements that have continued since the end of last year. The pair fell by around 93 won in March, so would not be at all strange it the markets saw some adjustive dollar buy-backs at the start of the month. After a round of U.S.-dollar buying, though, the pair is expected to move without a sense of direction.

Yet there are several uncertain factors within South Korea that will need monitoring. Firstly, four of the seven members of the Bank of Korea's Monetary Policy Committee (MPC) will be stepping down when their terms come to an end on April 20. Of particular note will be the retirement of the only member who has been calling for rate cuts at recent MPC meetings. A number of institutions (the Ministry of Strategy and Finance, the BOK, the FSC and the Korea Chamber of Commerce & Industry) announced their recommended successors on March 28, but apart from one person, the candidates are also recognized doves who veer towards the government's stance, so expectations may well rise for further rate cuts.

Attention should also be paid to geopolitical risk in relation to North Korea. In February, Pyongyang conducted its fourth nuclear test while also launching long-range missiles. In response, the United Nations Security Council voted to place sanctions on North Korea at a public meeting on March 2. Tensions have since risen on headlines about North Korea conducting multiple short-range missile tests and so on. On the whole, the situation is not expected to veer in a dangerous direction, but it will take time for tensions to calm, so the situation will be difficult to ignore this month.

Furthermore, South Korea will hold its 20th legislative election on April 13. At the moment, President Park Geun-hye has come under attack for intervening in the selection of candidates for the Saenuri Party (her approval rating stands at a record-low 36%). Presidents in South Korea are only allowed one term in office, so there are concerns the country might be run by a lame-duck government in the time remaining until President Park steps down in February 2018. The Saenuri Party has also made some bold election pledges, including asking the Bank of Korea to adopt a Korean-style quantitative easing policy, so developments will need to be watched closely from here on.

Junji Tsujino, Taipei Treasury Office

New Taiwan Dollar – April 2016

Expected Ranges	**Against the US$:**	**NT$31.50–33.25**
	Against the yen:	**JPY3.30–3.60**

1. Review of the Previous Month

In March the USD/TWD pair weakened on dollar bearishness and an inflow of foreign funds into Taiwanese stock markets.

The pair opened the month trading at the TWD33.20 mark. With funds continuing to flow into Taiwanese stock markets after the Lunar New Year holiday, the pair dropped to around TWD33.10 on March 1 and then fell below TWD33.00 on March 3 to hit TWD32.80 on March 4. The greenback weakened on March 7 on the results of the U.S. employment data, released the previous weekend. With the Taiwanese unit also remaining bullish, the pair dropped to the TWD32.70 range. Yet with the South Korean won moving bearishly over March 8–9 in the run up to the Bank of Korea's Monetary Policy Committee (MPC) meeting, the pair rallied to the TWD32.90 mark for a time on March 9. However, the euro then soared after ECB President Mario Draghi's press conference on March 10, with the U.S. dollar falling sharply in comparison. As a result, the USD/TWD pair dropped to around TWD32.80 on March 11.

It swung to and fro thereafter. Though it strengthened to the TWD32.60 level for a time on March 14, it then dropped back to around TWD32.80 over March 15–16 in the run up to the FOMC meeting. In their federal funds rate projections, released after the FOMC meeting on March 16, FOMC members downgraded their forecasts for the number of rate hikes in 2016. This dovish stance saw the greenback sliding on March 17, with the pair dropping to around TWD32.60. With the U.S. unit weakening further in overseas markets on March 17, the pair fell again on March 18 to finish the day trading at the mid-TWD32.30 mark.

The USD/TWD pair remained deadlocked around TWD32.40 on March 21. With several FRB officials commenting on the possibility of an April rate hike on the same day, the pair strengthened temporarily to around TWD32.50 on March 22, though it then dropped back to around TWD32.40. With Belgium hit by a terrorist attack on March 23, the pair's movements were muted at the start of trading. In the afternoon, though, the pair rose to around TWD32.50 as the South Korean won and other Asian currencies began trending downwards. With the greenback rallying further on March 24, the pair rose slightly to hit the TWD32.60 range. The results of the Bank of Taiwan's MPC meeting were released that evening. The MPC decided to lower the policy rate, as broadly expected, but there was minimal reaction to this move on March 25, with the pair continuing to trade around TWD32.60. With the yen and won both sliding before the Taiwan market opened on March 28, the pair bounced back to TWD32.70 for a time, though in the end it slipped back to the mid-TWD32.60 mark amid a dearth of factors and slow trading. The U.S. dollar weakened on the back of some bearish inflation data, released on March 28, with the pair subsequently sliding to around TWD32.60 on March 29. The greenback fell further on March 29 following a speech by FRB Chair Janet Yellen. As a result, the pair opened trading around TWD32.40 on March 30 before closing the day at the upper-TWD32.20 mark. With the Taiwanese dollar remaining bullish over March 31, the pair kicked off the day trading around TWD32.20 before temporarily dipping to the mid-TWD32.10 level.

2. Outlook for This Month:

The Taiwan dollar is expected to gain slightly on the U.S. dollar in April.

Though Taiwanese economic indicators such as exports, new export orders and industrial production continue to post negative growth, the scale of this contraction is decreasing. Some observers believe the first quarter was the nadir for the economy, with attention likely to focus now on the growing sense that things have bottomed out. The February CPI data remained in positive territories for the sixth successive month. The data rose sharply, in part due to the rising cost of fresh foods as a result of record low temperatures in January.

The biggest factor for the Taiwan dollar in April will be the movements of its U.S. counterpart. As described below, with Taiwanese monetary policy remaining within the bounds of convention, it is hard to imagine the Taiwanese dollar leading the way this month, so the markets will probably be swayed by the movements of the greenback as U.S. indicators prompt speculation about the timing of the next rate hike. A further factor involves the flood of foreign money into Taiwan's stock markets. Overseas investors have continued to substantially buy on balance after the Lunar New Year holiday. This trend is continuing as investors seek to make up for the selling on balance that occurred during the phase of market turbulence that began at the turn of the year. Looking back at data over the past ten years, April seems to be the month when buying on balance occurs the most, with selling on balance only taking place on two Aprils in the past decade. Furthermore, the Taiwan unit only weakened twice in April during that period, so April seems to be conducive to Taiwan-dollar bullishness. Market participants should be aware that the unit has appreciated in April in last seven years.

As broadly expected, the Bank of Taiwan (BoT) lowered its policy rates at its regular MPC meeting in March. However, with the base rate standing at 1.50%, the BoT's average rate on borrowings from private-sector banks moving at the 0.5% mark, and private-sector lending also on the increase compared to Japan and Europe, the BoT only indicated once again that it had room to use conventional measures. It gave no sign of heading in the direction of quantitative easing or other non-conventional policies that some observers have been hoping for (with 2-year interest rates and longer subsequently rising). With market expectations rising, the ECB has learnt that dropping hints about further easing will not always work, with the euro strengthening after decisions to loosen policy further, for example. This is not just a negative phenomenon, though; the eurozone has reaped the benefits of euro bearishness in periods when expectations are building up. Based on this, it seems (1) the BOT is prioritizing Taiwan-dollar stability and has not given any indications about its future direction, with (2) the bank expecting the Taiwanese economy to improve while it still has room to implement conventional monetary easing. In this case, though, it is hard to imagine the Taiwan unit weakening on Taiwanese monetary policy, like in August last year, so the market will probably be shaped more by the movements of the U.S. dollar this month.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – April 2016

Expected Ranges	**Against the US$:**	**HK$ 7.7550–7.7850**
	Against the yen:	**JPY 14.10–14.80**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in March

The Hong Kong dollar remained strong in March, reaching its high at HKD 7.7525 for the first time since January. The Hong Kong dollar thus cancelled out the prior depreciation caused by concerns over capital outflow and the depreciation of the Chinese yuan. The one-year U.S. dollar/Hong Kong dollar future rate fell from 814 points, the highest in 16 years, to almost zero. As a result of the stability in the Chinese yuan market, market sentiment was ameliorated. The Chinese government has set out the economic growth target rate at 6.5% or above by expanding its fiscal deficit. As a result, concerns over a hard landing in China have been mitigated. While the FOMC exhibited a cautious attitude toward its monetary policies, the Hong Kong dollar depreciated against the U.S. dollar to the HKD 7.75 level, due to capital inflow as well as seasonal demand for fund procurement in Mainland China.

Hong Kong dollar interest rate market in March

The three-month HIBOR fell to 0.55%, while the three-month U.S. dollar LIBOR remained at around 0.62%. As a result, the three-month HIBOR-LIBOR spread fell to a negative level. On the other hand, the current account balance of the HKMA for private banks reached HKD 363.4 billion, demonstrating the abundance of liquidity in the market. The Hong Kong dollar interest rate swap rates rose to a limited extent, and the HIBOR-LIBOR basis swap (HI-LI) rate fell as a result of the improvement of market sentiment in newly emerging countries.

Hong Kong stock market in March

The benchmark Hang Seng Index (HIS) appreciated again, thanks to the contents of the discussions at the Federal Reserve Board in the U.S., which tended to have a dovish view, along with discussions at the National People's Congress. It should also be mentioned that the Shanghai Composite Index recovered to the 3,000 level for the first time in two months, and the recovery of Chinese stocks supported the Hang Seng Index as well.

2. Outlook for This Month:

Hong Kong dollar spot exchange market in April

It is unlikely for the Hong Kong dollar to depreciate against the U.S. dollar to fall below HKD 7.7525. It is thus impossible for the Hong Kong dollar/U.S. dollar exchange rate to reach HKD 7.75, the upper end for the Hong Kong dollar in the U.S. dollar peg system, in the near future. Even though market participants sold the U.S. dollar to a slightly excessive degree in March, market participants have been re-evaluating the outlook for the coming interest rate hikes announced by the U.S. monetary authorities, and it is likely for the U.S. dollar/Hong Kong dollar exchange rate to return to HKD 7.78 from HKD 7.76. On the other hand, if the March results for the Chinese economic indices turn out to be weak, it is likely for market participants to again start having concerns over an economic slowdown in China and doubting whether the economic stimulus plans carried out by the Chinese monetary authorities have been successful; also, the Hong Kong dollar exchange market is likely to suffer from downward pressure again in the times ahead.

Hong Kong dollar interest rate market in April

As the liquidity level has been high in the Hong Kong dollar market, it is forecasted that the three-month Hong Kong dollar HIBOR will remain at around 0.5%. In reaction to the rally of the crude oil price, the outlook for inflation has improved. Under such a context, the U.S. dollar interest rate swap market has seen some upward pressure, making it likely for Hong Kong dollar interest rate swaps to appreciate further.

So Ouchi, Treasury Division, MHBK (China)

Chinese Yuan – April 2016

Expected Ranges	**Against the US$:**	**CNY 6.4100–6.6100**
	Against the yen:	**JPY 15.97–17.97**
	Against 100 yen:	**CNY 5.5800–6.0300**

1. Review of the Previous Month

The U.S. dollar/Chinese yuan exchange rate remained low in March, falling below CNY 6.50 at the end of the month.

Even though the Chinese yuan exchange market was expected to see few fluctuations before the National People's Congress (the equivalent of the National Diet of Japan) that was to start on March 5, the Chinese yuan started appreciating from the beginning of the month. As a result, the U.S. dollar/Chinese yuan exchange rate reached CNY 6.5045, with a Chinese yuan stronger than at the end of the previous month by 0.7% on March 4—the day before the opening of the National People's Congress.

After attracting substantial attention in the market, the National People's Congress revealed its decisions to fuel the concerns of market participants regarding the economic outlook, such as in the GDP target rate being revised downward from 7.0% to 6.5%–7.0%, the target fiscal balance being revised from -2.3% to -3.0%, and the target trade volume being eliminated. However, the impact of such decisions on the exchange market was limited. On March 17, the FOMC decided to revise its interest rate outlook downward, which led the U.S. dollar to depreciate. As a result, the Chinese yuan appreciated against the U.S. dollar. The Chinese yuan temporarily reached the CNY 6.45 level to the U.S. dollar, the same level observed in December last year. Thereafter, the Chinese yuan depreciated to some extent, to balance the earlier appreciation. However, the Chinese yuan started to appreciate again toward the end of the month. In the end, the U.S. dollar/Chinese yuan exchange market closed at the CNY 6.45 level, with a Chinese yuan stronger by 1.3%, compared to the closing rate at the end of the previous month.

Interest rate market: Even though the liquidity level remained stable, interest rates appreciated toward the end of the month.

More than CNY 10 billion was collected during the first five business days of the month, as it was the repo settlement date for open-market operations. However, as the deposit requirement rate had been cut from 17.5% to 17.0% (the effect of providing funds equivalent to CNY 600–700 billion) at the end of the previous month, the overnight SHIBOR remained at a level slightly below 2%. Toward the end of the month, however, the liquidity level dropped as major Chinese banks started collecting funds, while there were few fund providers and the end of the quarter was approaching. As a result, the overnight SHIBOR rose to 2.017%, exceeding the 2.0% mark—which had been considered to be a psychological turning point.

2. Outlook for This Month:

Foreign exchange market

The central parity rate has been set following the CFETS Index announced by the Chinese monetary authorities in December last year, which is keeping the foreign exchange market stable. Following the CFETS Index, the Chinese yuan exchange market has been impacted more by other major currencies. Thus, it has become more important to pay attention to changes in the global monetary environment in order to predict future trends in the Chinese yuan exchange market. At the moment, the most important issue is whether or not the FOMC decides to carry out an additional interest rate hike at its meeting in April. Last month, FRB Chair Janet Yellen made a remark to emphasize that interest rate hikes should be carried out with caution, which made it less likely for the interest rate to be raised at the FOMC meeting in April. Therefore, if the interest rate was raised in April, the Chinese yuan is likely to depreciate substantially against the U.S. dollar. On the other hand, even if the interest rate hike is postponed, the appreciation of the Chinese yuan is likely to be limited.

Interest rate market

The measures to stabilize the market taken by the Chinese monetary authorities have been functional, and the liquidity level in the market has been stable. However, there are a limited number of fund providers in the market, and market participants need to carefully observe the supply & demand balance.

Noriko Suzuki, Asia & Oceania Treasury Department

Singapore Dollar – April 2016

Expected Ranges	**Against the US$:**	**SG$ 1.3350–1.3750**
	Against the yen:	**JPY 81.50–84.50**

1. Review of the Previous Month

The Singapore dollar renewed its high against the U.S. dollar for the first time in nine months in March, thanks to the trend to buy the currencies of emerging countries based on the additional measures of monetary easing in China, the stabilization of the crude oil market, and the speculation that the interest rate hikes would be carried out slowly.

On February 29, the People's Bank of China announced its decision to cut the deposit requirement ratio. It was an unexpected additional measure of monetary easing, which was taken positively by market participants. As a result, the Singapore dollar was strengthened, and the U.S. dollar/Singapore dollar exchange market opened trading at the 1.40 level in March. Stock prices also appreciated globally, and the overall emerging market strengthened. Following this trend, the Singapore dollar continued appreciating every day. On March 4, the February employment statistics of the U.S. were released, and the number of non-agricultural employees recorded an increase larger than expected in the market. However, the weakness of the manufacturing industry was revealed in the statistics, leading market participants to believe that the interest rate in the U.S. would not be raised in the near future. As a result, U.S. dollar-selling was encouraged further. Under such conditions, the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.37 level, exceeding the high of the Singapore dollar recorded since the beginning of the year.

In the second week of March, the trend was reversed, and the Singapore dollar started depreciating due to profit-taking activities after the appreciation that lasted for five consecutive days. As a result, the U.S. dollar/Singapore dollar exchange rate temporarily returned to the upper-SGD 1.38 level. However, on March 10, the European Central Bank (ECB) announced its decision to carry out additional measures of monetary easing, which led the Singapore dollar to start appreciating again. The unexpected decision taken by the ECB to carry out additional measures of monetary easing itself encouraged market participants to buy the currencies of emerging countries, while ECB Governor Mario Draghi made a negative remark regarding additional interest rate cuts in the times ahead, which led the euro—one of the major basket currencies for the Singapore dollar—to rally rapidly. These factors all encouraged market participants to buy the Singapore dollar, which continued appreciating against the U.S. dollar to the lower-SGD 1.37 level. Weekly trading closed at that level.

In the third week of March, the Singapore dollar depreciated during the first half of the week, due to profit-taking activities, while waiting for the FOMC meeting in the U.S. in the middle of the week. However, on March 16, the outcome of the FOMC meeting turned out to be generally dovish, such as in the remark made by FRB Chair Janet Yellen, emphasizing that inflation would be only temporary. In addition, the FF interest rate at the end-of-year forecast by FOMC members turned out to be lower than the estimate in the market. As a result, the Singapore dollar started appreciating again. On March 17, the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.34 level for the first time in eight months.

The fourth week of March started with Singapore dollar-selling for the purpose of profit-taking before the Easter holidays. Furthermore, multiple officials related to the FRB made remarks thereafter, suggesting that an interest rate hike in April would be possible, and this fueled expectations for early interest rate hikes. As a result, the Singapore dollar depreciated against the U.S. dollar every day, and the U.S. dollar/Singapore dollar exchange rate returned to the lower-SGD 1.37 level on March 25.

However, FRB Chair Janet Yellen made a remark, emphasizing that an additional interest rate hike should be carried out with caution on March 29 after the Easter holidays, resulting in the expectations for early interest rate hikes being eliminated. Market participants started buying the Singapore dollar again, and the Singapore dollar appreciated against the U.S. dollar to reach the lower-SGD 1.34 level for the first time in nine months on March 31.

2. Outlook for This Month

The U.S. dollar/Singapore dollar exchange rate is forecast to fluctuate generally within a narrow range, while it is possible to move more violently, depending on the monetary measures taken in Singapore, along with the speculations regarding the interest rate hikes in the U.S.

The Monetary Authority of Singapore (MAS) is planning to hold a regular meeting to review its monetary policy, which is scheduled for early April (around April 7–14). The preliminary figure for the January–March quarter GDP of Singapore will also be out at the same time, and both of these will be most important factors for the Singapore dollar exchange market in April. With regard to the domestic economy of Singapore, even though exports have declined due to the downturn of the Chinese economy, it can be said that there are now less downward risks for the Singaporean economy, as the Chinese and crude oil markets have stabilized after causing significant instability in the monetary market—which had been the largest risk factor in Singapore. In the budget plan for 2016, there are measures to boost domestic demand, and the Singaporean economy is expected to maintain 2.0%–2.5% growth in 2016. With regard to consumer prices, on the other hand, the MAS remains cautious about inflation, as the labor market remains tight, and there is no more factors to lower prices, such as the depreciation of the crude oil price and subsidies. Thus, the MAS is likely to maintain its existing monetary policy. However, there are also some market participants who expect the MAS to take measures of monetary easing, and therefore, the Singapore dollar may be bought for a short period if the MAS decides to maintain its current monetary policy.

With regard to monetary policy in the U.S., the dominant view is that the FRB is not going to hurry in raising the interest rate. Even though such a view itself is a factor to encourage Singapore dollar-buying, the Singapore dollar has already rallied against the U.S. dollar based on this assumption, from its low record in January at the SGD 1.44 level to the 1.34 level in March. This is a significant move, given that it happened only within three months, and the exchange rate is approaching the upper end of the policy fluctuation band. Therefore, the Singapore dollar is unlikely to appreciate much further from the current level. On the other hand, it is possible for market participants to expect the interest rate hike in the U.S. to be earlier depending on the figures of the U.S. economic indices, to be announced in the times ahead. However, even if such is the case, the FRB is likely to raise the interest rate slowly, and thus the Singapore dollar is also unlikely to depreciate much further from the current level. For this reason, the U.S. dollar/Singapore dollar exchange rate is expected to fluctuate within a narrow range between SGD 1.34 and SGD 1.37, while it may react to various factors for a short period.

Other important events in April include the ECB Committee meeting (April 21), the FOMC meeting in the U.S. (April 26 and 27), and the Bank of Japan monetary policy meeting (April 14 and 15), as well as the release of the export statistics scheduled for April 18 as a domestic event.

Yuki Inoue, Bangkok Treasury Office

Thai Baht – April 2016

Expected Ranges	**Against the US$:**	**BT 35.00–36.20**
	Against the yen:	**JPY 3.10–3.25**

1. Review of the Previous Month

In March, the U.S. dollar/Thai baht exchange rate fell below THB 35 and started rallying thereafter.

The U.S. dollar/Thai baht exchange rate fell during the first part of the month. On March 1, the February Consumer Price Index turned out to be -0.50%, almost at the same level as had been expected in the market. As the People's Bank of China had announced its decision to cut the deposit requirement ratio on the previous day, risk-taking sentiment was spreading in the market, which encouraged market participants to buy overall Asian currencies, including the Thai baht. As a result, the U.S. dollar/Thai baht exchange rate fell to the mid-THB 35.50 level. On March 3, the February consumer confidence index was released, revealing negative growth for the second consecutive month, although the impact on the exchange market was limited. The U.S. dollar/Thai baht exchange rate remained low due to capital inflow into Thailand from overseas investors, who were attracted by high interest rates. Thus, the U.S. dollar/Thai baht exchange rate fell to the THB 35.20 level for the first time since mid-February. Then, the governor of the central bank of Thailand, Veerathai Santiprabhob, announced a decision to revise the economic outlook downward from the 3.5% announced in December last year.

The U.S. dollar/Thai baht exchange rate continued falling in the middle of March. On March 10, ECB Governor Mario Draghi showed a negative attitude regarding further interest rate cuts at a press conference after the ECB Committee meeting, which encouraged market participants to buy the euro and sell the U.S. dollar. Following this trend, the U.S. dollar/Thai baht exchange fell to the lower THB 35.20 level. Once the exchange rate fell below the THB 35.20 mark, which was seen to be the support line, it fell further to the THB 35.00 level. On March 14, Deputy Prime Minister of Thailand Somkid Jatusripitak made a remark to emphasize that "it is natural for funds to flow into Thailand as long as interest rates are falling in other markets" and that "there is no need to worry about the appreciation of the Thai baht for the moment," which kept the interest rate low. On March 16, the interest rate outlook by the FOMC members was revised downward, which encouraged market participant to sell the U.S. dollar, leading the U.S. dollar/Thai baht exchange rate to fall below THB 35 for the first time since August last year. Then, the Thai government bond yield renewed its historical low for all periods, and the U.S. dollar/Thai baht exchange rate fell and temporarily approached THB 35.70 on March 18.

In the last part of March, the U.S. dollar/Thai baht exchange rate rallied dramatically. U.S. dollar-selling after the FOMC meeting slowed down, and the overall Asian currencies weakened. On March 21, local time, the media reported a positive remark made by an FED official regarding an interest rate hike in April, which encouraged market participants to buy the U.S. dollar. On March 23, the U.S. dollar/Thai baht exchange rate exceeded THB 35.00 because of short-covering activities before the MPC meeting. The MPC decided to maintain the policy interest rate at 1.50%, as had been expected in the market, which led the U.S. dollar/Thai baht exchange rate rise further. Thereafter, an FED official made a hawkish remark, which led the U.S. dollar/Thai baht exchange rate to continue rising to the THB 35.20 level. At the MPC meeting, the economic growth outlook for 2016 was revised downward, which also helped the Thai baht become strong and stable against the U.S. dollar. On March 25, the February trade statistics were released, and imports recorded positive year-on-year growth for the first time in 14 months. However, Thai baht-selling continued, and the U.S. dollar/Thai baht exchange rate rose to the THB 35.40 level toward March 29. Thereafter, however, FRB Chair Janet Yellen relayed a cautious attitude toward interest rate hikes in her speech, which led the U.S. dollar/Thai baht exchange rate to the THB 35.10 level, along with some activities particular to the end of the month.

2. Outlook for This Month

The U.S. dollar/Thai baht exchange rate is forecast to be stable.

The U.S. dollar/Thai baht exchange market is currently dominated by rapid U.S. dollar buybacks after the U.S. dollar/Thai baht exchange rate reached the THB 34.70 level for the first time since July last year after the FOMC meeting in the U.S., held on March 15 and 16. At the FOMC meeting, the interest rate outlook was revised downward (four interest rate hikes before the end of the year to two interest rate hikes before the end of the year), and market participants reacted immediately by selling the U.S. dollar and buying Asian currencies. However, such a trend did not last long. In the second half of the month, multiple FRB officials implied the possibility of an interest rate hike in April, warning market participants who were quickly and excessively losing expectations for interest rate hikes. As a result, the trend of U.S. dollar-selling has slowed down in the overall market. Even though decisions regarding interest rate hikes in the U.S. will always depend on economic data, market participants are likely to buy the U.S. dollar in reaction (as has been the case so far) to economic data and remarks made by important officials that suggest possible interest rate hikes in the times ahead.

On the other hand, with regard to the domestic economy in Thailand, the Ministry of Commerce announced the February trade statistics on March 25, and imports recorded year-on-year growth of

-16.8%, while exports recorded year-on-year growth of +10.3% for the first time in 14 months. However, this is a result of the fact that the export figures for gold and jewelry pushed the overall export figure because of the appreciation of the gold price. Thus, exports remain weak otherwise. Similarly, the February data for the number of automobile sales was announced in the second half of March, recording year-on-year growth of -10.7%, revealing the fact that the figure still suffers from the decline after the last-minute purchase of automobiles before the tax system reform carried out in January. Given the current domestic economic conditions, the Monetary Policy Committee (MPC) unanimously decided to maintain the policy interest rate at the existing level of 1.50% at its meeting held on March 23. In its statement, the MPC referred to the decline in exports caused by the economic recession in the surrounding countries, while revising the economic growth rate estimate for 2016 downward from 3.5% to 3.1%. Even though it is still possible for the central bank of Thailand to take monetary easing measures in the times ahead, it seems to be a time to evaluate the effects of the series of economic stimulus measures carried out by the government, such as the approval of housing loans with low interest rates for persons with low income. Therefore, it is likely that no new monetary measure will be taken for a while.

Given the weakness of the domestic economy in Thailand as well as the process of the interest rate hikes in the U.S. discussed above, the U.S. dollar/Thai baht exchange rate is forecast to appreciate gradually, approaching the THB 36 level again.

Akifumi Matsushita, Asia & Oceania Treasury Department

Malaysian Ringgit – April 2016

Expected Ranges	**Against the US$:**	**MYR 3.87–4.10**
	Against the yen:	**JPY 27.30–29.50**

1. Review of the Previous Month

On March 1, the U.S. dollar/Malaysian ringgit exchange market opened at around MYR 4.19. The Malaysian ringgit strengthened, thanks to the rally of the crude oil price based on the expectation for major oil-producing countries to freeze their crude oil production. Market participants continued buying the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit exchange rate reached the MYR 4.14 level. Thereafter, China took measures of monetary easing, improving risk sentiment in the market and strengthening the stock market. Following this trend, market participants continued buying the Malaysian ringgit further, and the U.S. dollar/Malaysian ringgit exchange rate reached the MYR 4.11 level. On March 4, the January export and import figures turned out to be weaker than expected, which led the Malaysian ringgit to rally to a limited extent. In the end, weekly trading closed at the MYR 4.13 level to the U.S. dollar.

On March 7, the U.S. dollar/Malaysian ringgit exchange market opened at the MYR 4.11 level. While risk-taking sentiment was spreading in the market, the crude oil price remained stable, which led the overall currencies of resource countries to appreciate. Following this trend, the U.S. dollar/Malaysian ringgit exchange rate reached the mid-MYR 4.07 level for the first time in seven and a half months. On March 9, the crude oil price weakened as a result of profit-taking sales, which led the Malaysian ringgit to be sold further, and the U.S. dollar/Malaysian ringgit exchange rate fell to the mid-MYR 4.13 level. The central bank of Malaysia announced its monetary policy to maintain the policy interest rate at 3.25%, although its impact on the exchange rate was limited. Then, on March 11, the appreciation of the crude oil price supported the Malaysian ringgit exchange market, and trading closed at around MYR 4.09 to the U.S. dollar.

On March 14, the U.S. dollar/Malaysian ringgit exchange market opened at the MYR 4.09 level. While the market remained less active, waiting for a key event to happen, the media reported a negative view regarding the freezing of oil production in Iran, which led the crude oil price to fall rapidly. Following this trend, the Malaysian ringgit also depreciated against the U.S. dollar. On March 15, OPEC announced its expected additional supply of crude oil, which led the crude oil price to depreciate further from the perspective of supply & demand, due to which market participants also sold the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit exchange rate reached the mid-MYR 4.13 level. On March 17, U.S. dollar-selling was dominant in the market, due to the outcome of the FOMC meeting in the U.S., which led the Malaysian ringgit to appreciate rapidly against the U.S. dollar. Market participants actively bought the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit exchange rate fell below MYR 4.06. On March 18, market participants continued selling the U.S. dollar, and the Malaysian ringgit reached its weekly high against the U.S. dollar at the MYR 4.03 level. The exchange rate was adjusted slightly thereafter, and in the end, trading closed at around MYR 4.06 to the U.S. dollar.

On March 21, the U.S. dollar/Malaysian ringgit exchange market opened at the MYR 4.06 level. With few market participants, the market saw few fluctuations, as there were both positive and negative factors in the market regarding the freezing of oil production by major oil-producing countries and the speculation regarding the next interest rate hike in the U.S. On March 22, the media reported that a Chinese railway company is planning a large-scale investment in Malaysia, in reaction to which the Malaysian ringgit appreciated rapidly and the U.S. dollar/Malaysian ringgit exchange rate fell below MYR 4.00 for the first time in seven months. On March 23, speculation about the interest rate hike in the U.S. led market participants to start buying the U.S. dollar. However, the Malaysian ringgit continued appreciating against the U.S. dollar, thanks to the fact that the crude oil price remained high. As a result, the Malaysian ringgit renewed its recent high, and the U.S. dollar/Malaysian ringgit exchange rate reached the MYR 3.95 level. On March 24, the exchange rate was adjusted to a limited extent before the Easter holidays, and in the end, trading closed at around MYR 4.02 to the U.S. dollar.

2. Outlook for This Month

In the coming month, the Malaysian ringgit exchange market is expected to follow trends in the crude oil market as well as the activities of overseas investors, while it is also important to point out that the Malaysian ringgit may appreciate further.

With regard to external factors to start with, there are some negative factors, such as the hawkish remarks made by FRB officials regarding the interest rate hikes in the U.S., as well as the terrorist attacks in Belgium. However, the impact of such factors on the Malaysian ringgit market has been limited, and it seems that the Malaysian ringgit exchange market has become less risk sensitive.

On the other hand, the Malaysian ringgit has been the most widely purchased currency in the Southeast

Asian region, recording an appreciation of more than 7% in 2016. Major reasons for this include the recovery of the crude oil market. While expectations are mounting for the freeze in crude oil production, the West Texas Intermediate exceeded the USD 40 level for the first time in approximately three months. However, the appreciation of the crude oil price has recently been slow and has almost unchanged, due to cautious sentiment in the market toward the price appreciation. It is thus important to keep paying attention to the crude oil market in the times ahead.

In order for the Malaysian ringgit to appreciate further, the key is to have investment money flowing into Malaysia from overseas investors, similar to that observed in January. As U.S. long-term interest rates have been declining, the Malaysian government bonds with a single A rating may become more attractive for overseas investors, and market participants thus need to keep an eye out for the trend.

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

Indonesian Rupiah – April 2016

Expected Ranges	**Against the US$:**	**IDR 13,200–13,600**
	Against 100 rupiah	**JPY 0.82–0.87**
	Against the yen:	**IDR 114.80–122.50**

1. Review of the Previous Month

In March, the U.S. dollar/Indonesian rupiah exchange rate approached IDR 13,000 before appreciating (i.e., the appreciation of the U.S. dollar and the depreciation of the Indonesian rupiah) at the end of the month.

On March 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at around IDR 13,350. Capital inflow into Indonesia increased, as concerns over the economic outlook in emerging countries were swept away based on the decision made by the People's Bank of China to cut the deposit requirement ratio. As a result, the Indonesian rupiah continued appreciating, and the U.S. dollar/Indonesian rupiah exchange rate approached IDR 13,100 on March 4.

Thereafter, the U.S. dollar/Indonesian rupiah approached 13,000 on March 14, although, in the end, the exchange rate did not fall below this level. Furthermore, the Indonesian rupiah weakened toward the end of the month due to profit-taking sales in the stock market as well as hawkish remarks made by the FRB officials in the U.S. In the end, the U.S. dollar/Indonesian rupiah exchange rate returned to the upper-IDR 13,300 level (as of March 29)—the level observed at the beginning of the month.

On March 17, the central bank of Indonesia held its regular meeting, and the interest rate was cut, as had been expected in the market, and the policy interest rate (the target rate of the central bank) was set to be at 6.75%. Since January this year, the interest rate was cut for the third consecutive month, but the reaction to this decision in the market was limited.

2. Outlook for This Month:

The Indonesian rupiah is forecast to weaken in the coming month.

The U.S. dollar/Indonesian rupiah exchange rate fell to approach IDR 13,000 in the middle of the last month (i.e., the depreciation of the U.S. dollar and the appreciation of the Indonesian rupiah). However, the exchange rate did not fall below IDR 13,000 and the Indonesian rupiah continued depreciating thereafter. Given such conditions, it is possible that the appreciation of the Indonesian rupiah, which has continued since the beginning of the year, has peaked out.

Furthermore, as a result of the interest rate cuts carried out in three consecutive months (a total of 0.75%), the interest rate differentials have certainly narrowed between the Indonesian rupiah and the U.S. dollar. Thus, given the consistent current account deficit, it is difficult to find any factor to lead the Indonesian dollar to appreciate.

In the second half of the last month, the Minister of Finance of Indonesia made a remark that it is possible for the interest rate to be cut further. If the Indonesian rupiah weakens in the foreign exchange market, the interest rate cuts that have continued since the beginning of the year may slow down for the moment. Interest rate cuts may not be seen as a positive factor for the growth of the Indonesian economy, as had been the case so far.

As the Indonesian rupiah exchange market is expected to continue following trends in security investment, market participants should pay attention to the monetary policy changes in Japan, the U.S., and Europe, as well as risk-taking and risk-averse sentiment in the market.

Yasunori Sugiyama, Manila Branch

Philippine Peso – April 2016

Expected Ranges	**Against the US$:**	**PHP 45.90–47.00**
	Against the yen:	**JPY 2.40–2.50**

1. Review of the Previous Month

At the end of February, the revised figure for the GDP of the U.S. was released, and it turned out to be strong, which improved the risk sentiment in the market, as concerns surrounding the U.S. economy were swept away. The crude oil price also appreciated, and the currencies of emerging countries, of resources countries in particular, strengthened. The People's Bank of China decided to cut its deposit requirement ratio, which also mitigated concerns over the economic outlook in emerging countries. Following this trend, the Philippine peso also appreciated against the U.S. dollar. On Tuesday, March 1, the U.S. dollar/Philippine peso exchange market opened at PHP 47.44, after which the Philippine peso continued appreciating intermittently to PHP 47.35, then to 47.23 on Wednesday, March 2, and to PHP 47.07 on Thursday, March 3. On Friday, March 4, the U.S. dollar/Philippine peso exchange rate fell to the PHP 46 level for the first time since January this year, and weekly trading closed at PHP 46.945 against the U.S. dollar.

In the following week, the U.S. dollar/Philippine peso exchange market opened at PHP 46.83 on Monday, March 7. Even though the March employment statistics of the U.S. had been released at the end of the previous week with strong figures, the weekly and hourly salary recorded negative year-on-year growth. Market participants took this result as a weakening of inflation pressure, and expectations for interest rate hikes in the U.S. have declined. With the appreciation of the crude oil price, the overall Asian currencies strengthened against the U.S. dollar. Following this trend, the Philippine peso also appreciated against the U.S. dollar, although there were some fluctuations. As a result, on Wednesday, March 9, the U.S. dollar/Philippine peso exchange rate reached PHP 46.84 and PHP 46.695 on Thursday, March 10, renewing the high since the beginning the year for the Philippine peso. On Friday, March 11, the following day, the U.S. dollar/Philippine peso continued falling to PHP 46.60, and weekly trading closed at HP 46.62 to the U.S. dollar.

In the week starting on Monday, March 14, as well, risk-taking sentiment remained in the market, thanks to the appreciation of the crude oil price. Then, the U.S. dollar/Philippine peso exchange market opened at PHP 46.50 on Monday, March 14. The U.S. dollar/Philippine peso pair continued trading at the mid-PHP 46 level throughout the day. However, in the evening of the same day, Iran showed a negative attitude toward the adjustment of oil production, which led the crude oil price to fall. As a result, risk-averse sentiment grew in the market, encouraging market participants to buy the U.S. dollar, leading the U.S. dollar/Philippine peso to rise to PHP 46.83 on Tuesday, March 15, and to PHP 46.93 on Wednesday, March 16. However, the outcome of the FOMC meeting held on March 16 suggested that the interest rate hikes would not happen quickly, leading the Philippine peso to appreciate sharply on Thursday, March 17, and the U.S. dollar/Philippine peso exchange rate reached PHP 46.36. On Friday, March 18, the same trend persisted, and the U.S. dollar/Philippine peso exchange rate fell to PHP 46.15, after which short-covering activities at the end of the week led the exchange rate to return to PHP 46.36 to the U.S. dollar, at which the trading closed.

On Monday, March 21, the U.S. dollar/Philippine peso exchange market opened at PHP 46.45. The Philippine peso remained strong before the Holy Week, and the U.S. dollar/Philippine peso exchange rate reached PHP 46.17 on Tuesday, March 22. However, the exchange rate returned to PHP 46.40 to the U.S. dollar on Wednesday, March 23, and the Easter holidays started. After the weekend, on Monday, March 28, the U.S. dollar strengthened because of remarks to suggest an interest rate hike, made by the FRB officials. The U.S. dollar/Philippine peso exchange rate has thus been fluctuating at the PHP 46.30–46.40 level.

2. Outlook for This Month

Voting for the Philippine presidential election will occur on Monday, May 9.

On this day, there will be voting not only for the presidential election but also for other public elections at all levels, including a half of the upper house members and all of the lower house members. To describe this using the equivalent in Japan, it would be like elections for the lower and upper houses as well as for the governors of prefectures, members of prefectural assemblies, mayors, and members of city council, all happening on the same day. Thus, it will truly be an important event.

Therefore, there will be electoral campaigns at all levels, and this has been resulting in capital flows being extremely active since the beginning of 2016. Normally, consumption activities decrease in January and February, after the Christmas holidays. However, for example, the amount of Japanese motorcycle sales increased by 37% year-on-year in January and by 32% year-on-year in February, which is extraordinary growth. A Japanese automobile company has also seen positive growth, with its sales increasing by 21.7% year-on-year in February. Toward May, domestic consumption is likely to be more active in the Philippines.

Such strength of the Philippine economy supported by domestic consumption should be reflected in the

U.S. dollar/Philippine peso exchange rate as a factor to lead the Philippine peso to appreciate against the U.S. dollar. However, the U.S. dollar/Philippine peso exchange market is easily affected by external factors, as is the case with other Asian currencies. In March, expectations for the interest rate hike in the U.S. declined, and the depreciation of the crude oil price slowed down, which kept the U.S. dollar/Philippine peso exchange rate at the PHP 46 level.

However, even if expectations for the interest rate hike in the U.S. decline, it is difficult to expect the Philippine peso to continue appreciating rapidly, as the outcome of the presidential election is too uncertain. Thus, the U.S. dollar/Philippine peso exchange rate is expected to continue fluctuating within a range between the lower-PHP 46 level and the upper-PHP 47 level for a while.

Hiroaki Nakano, Asia & Oceania Treasury Department

India Rupee – April 2016

Expected Ranges	**Against the US$:**	**INR 66.00–68.50**
	Against the yen:	**JPY 1.63–1.74**

1. Review of the Previous Month

The budgetary plan for FY2016/FY2017 was released at the end of February. As a result, the sense of uncertainty toward fiscal deterioration was mitigated, which led the Indian rupee to significantly appreciate against the U.S. dollar in March.

On February 29, the Indian government released its budgetary plan for FY2016/FY2017 (from April 2016 to March 2017). Even though market participants had expected that the fiscal deficit target figure would be revised downward, the figure was maintained at -3.5% against the GDP—the same level as in the previous budgetary plan. In reaction to this, market participants bought back the Indian rupee.

On March 1, the U.S. dollar/Indian rupee exchange market opened trading at around INR 68, after which it slowly fell to approach INR 67. Thereafter, the U.S. dollar/Indian rupee pair continued trading at the lower-INR 67 level.

On March 16, the FOMC decided to postpone an interest rate hike at its meeting, and the policy interest rate outlook by FRB members was revised downward more significantly than expected. As a result, the U.S. dollar depreciated and the overall emerging currencies appreciated. Following this trend, the U.S. dollar/Indian rupee exchange rate fell to the lower-INR 66 level as well.

However, the trend reversed on March 21. The governors of various Federal Reserve banks in the U.S. mentioned the possibility of an interest rate hike in April, while risk-averse sentiment grew in the market as a result of the terrorist attacks in Brussels, Belgium. As a result, the U.S. dollar appreciated and the U.S. dollar/Indian rupee exchange rate rose to approach INR 67.

Thereafter, major markets were closed and the U.S. dollar weakened. In the meantime, the Indian rupee strengthened again, and the U.S. dollar/Indian rupee exchange rate returned to the lower-INR 66 level.

2. Outlook for This Month

The Indian rupee is forecast to depreciate in April.

The budgetary plan was released at the end of February, and while the fiscal target was maintained, the budget allocation for the advised salary raise for civil servants was only partial at 60–70%. Thus, it should be underlined that additional expenditures are possible in the times ahead. Furthermore, with regard to expenditures, subsidy reform was not carried out. The decline is mainly caused by the fuel subsidy caused by the depreciation of the crude oil price. Risks are growing surrounding the crude oil price and the salary increase for civil servants, and market participants should thus remain cautious in the times ahead.

Also, the inflation rate has fallen below the expected level, and food prices have been low. Therefore, It is now more possible for the Reserve Bank of India (also known as the "RBI," the central bank of India) to cut the interest rate. Thus, the interest rate is likely to be cut in April at the next meeting.

However, the crude oil price has been recovering, and the inflation rate, which continued declining due to the depreciation of the crude oil price, may start rising with the key factor fading away.

In the U.S. various FRB governors have mentioned the possibility of an interest rate hike. It seems that when the market stabilizes there are discussions on such a hike. Under such conditions, it is difficult to expect the Indian rupee to continue appreciating rapidly. Even if the Indian rupee is bought back or if positions are adjusted, such activities are not likely to be the mainstream. The Indian rupee is thus forecast to weaken slightly for the time being.