Mizuho Dealer’s Eye

June 2016

Mizuho Bank, Ltd.

Forex Department

Yasunori Shimoyama, Forex Sales, Forex Department

U.S. Dollar – June 2016

Expected Ranges **Against the yen: JPY108.00–113.00**

1. Review of the Previous Month

The dollar/yen pair rose in May. It opened the month trading at the lower-106 yen mark on May 2. On April 28, the Bank of Japan's Monetary Policy Committee (MPC) had decided to keep policy unchanged. Japan was then included in the 'Monitoring List' of a U.S. report on foreign exchange policies, released April 29. As a result, the yen-buying trend continued into May, with the pair dropping to a monthly low of 105.55 yen on May 3 after the Reserve Bank of Australia (RBA) unexpectedly cut interest rates. The bullish results of the U.S. Non-manufacturing ISM Report on Business for April was then released, though this was offset by the April employment data (released May 6), with the nonfarm payrolls figure dropping below market expectations. As a result, the pair swung to and fro for a time. However, it ended the week trading at the lower-107 yen mark after New York FRB President William Dudley, a recognized dove, commented that "two (rate hikes within the year still) seems like a reasonable number."

It opened the following week trading at the lower-107 yen level on May 9. Japanese and European stocks then moved bullishly after crude oil prices rose on a forest fire in Canada. With the dollar also supported by the better-than-expected results of the U.S. Labor Market Conditions Index for April, the currency pair rose to the mid-108 yen mark. On May 10, Japanese Finance Minister Taro Aso declared that the U.S. foreign exchange report would not constrain Japanese foreign exchange policy, with Mr. Aso adding that "Japan obviously will intervene if one-sided moves persist." This led to growing concerns of an intervention, with the pair subsequently strengthening to the lower-109 yen level. It then moved around 108–109 yen before ending the week at the mid-108 yen mark.

It opened the following week's trading at the upper-108 yen range on May 16. The Nikkei Average then rose and the dollar/yen pair hit the lower-109 yen mark after reports emerged that Japanese Prime Minister Shinzo Abe was planning to postpone the next consumption tax hike. Japan's (preliminary) first quarter GDP data was released on May 18. The result beat market forecasts, with expectations for such a postponement and for further easing by the BOJ subsequently dropping off. As a result, the pair temporarily fell to the upper-108 yen level before eventually returning to the upper-109 yen level. The minutes to the April FOMC meeting were released thereafter and they struck a hawkish tone, stating that a June rate hike could still happen, depending on the economic data. This saw the currency pair rising to the lower-110 yen range. It then strengthened to the mid-110 yen level on May 20 before closing the week at the lower-110 yen mark.

The yen was bought after Japan posted a larger-than-expected trade surplus for April, so the pair opening Tokyo trading at around 110 yen the following week, on May 23. The yen was pushed up on

May 25 after comments by Finance Minister Aso doused hopes that the consumption tax hike would be postponed. The dollar/yen pair was also pulled higher when the pound/yen pair rose after opinion polls suggested the Remain camp was winning the Brexit debate. On the whole, though, the currency pair moved with a lack of momentum. However, the dollar was bought on May 27 after FRB Chair Janet Yellen commented that a rate hike would probably be appropriate in the coming months. With news also emerging that Japan would postpone a consumption tax hike, the pair rose a monthly high of 111.45 yen toward the following week before closing May at 110.72.

2. Outlook for This Month:

In June, the dollar/yen pair is expected to move with a heavy topside in the run-up to the UK referendum on leaving the EU, set for June 23, though the pair will probably bounce back thereafter.

There are a number of important factors this month, including: the FOMC meeting of June 14–15 (where FOMC members will release their federal funds rate projections and FRB Chair Janet Yellen will hold a press conference); the BOJ MPC meeting of June 15–16; and the aforementioned Brexit vote on June 23. U.S. and Japanese monetary policy will require attention, but the first thing to focus on will be the UK referendum. Opinion polls currently suggest the momentum is with the Remain camp, but if the UK does vote to leave the EU, this will inevitably lead to growing risk aversion across the globe. Chronologically speaking, the FOMC and BOJ MPC meetings will take place before the vote. If the U.S. lifts rates and the UK votes to leave the EU, this will probably see funds flooding out of emerging markets. It will also invite dollar appreciation, something the U.S. wants to avoid. As a result, the U.S. and Japan may be forced to leave monetary policy as it is. With regards to U.S. monetary policy, on May 27 FRB Chair Janet Yellen voiced the hawkish opinion that rates could be lifted in the coming months. Attention will also be focused on a key speech by Yellen hastily arranged on June 6.

This speech will occur after the June 3 release of the May U.S. employment data and directly before the FRB goes into silent mode in advance of the June 14–15 FOMC meeting. Even if Yellen does make some specific comments about the timing of the next rate hike, with the UK referendum looming, this will probably point not to a June hike but rather to one in July, provided Brexit does not come to pass. If so, market participants will find it hard to act until the UK referendum is out of the way. If anything, the dollar/yen pair's topside may be held down as speculators sell the dollar to lock in profits and Japanese exporters convert funds into yen. If a Brexit scenario is avoided, the dollar will probably rise on expectations for a U.S. rate hike. With the BOJ's balance sheet far bigger as a proportion of GDP compared to the balance sheets of the FRB and ECB, the Japanese central bank does not have much room left for further easing, so it will probably hold onto its remaining cards to use during emergencies. Market participants will also need to keep a close eye on the decision to postpone the consumption tax hike. Though this will probably see Japanese stocks rising and the yen falling for a time, there is an undeniable risk that Japanese government bonds (JGBs) could be downgraded and there are concerns the move could lead to a stock sell off (led by investors with shares in banks, which are particularly exposed to JGBs), a rising yen, or a so-called 'bad yen depreciation.'

Of course, if the FOMC lifts interest rates, the BOJ implements further easing and the UK votes to leave the EU, the aforementioned scenario may shift significantly, but on the whole the dollar/yen pair is expected to move with a heavy topside up until the UK referendum before bouncing back thereafter.

Dealers' Market Forecast

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

Bullish on the dollar (6 bulls: 108.00–116.00, Core: 109.00–115.00)

Fujisaki	108.00 – 115.00	There will probably be some short-lived attempts on the dollar's topside on: gradually-growing speculation that the BOJ will ease further when it meets in June; and rising expectations for an FOMC rate hike. The pair will also be supported by: strong demand in Japan for direct investment and purchases of foreign securities; and policy mobilization (including fiscal policy) in Japan in advance of a series of political events.
Kato	109.00 – 116.00	Yen repatriation by Japanese firms is likely to decrease on the back of the interest rate situation, with the U.S. lifting rates and Japan introducing negative rates. At the same time, this is prompting Japanese investors to decrease their holdings of JGBs and shift funds to hedged foreign bonds instead, so there is unlikely to be a phase of substantial yen buying.
Yano	109.00 – 115.00	Market participants have already factored in a June (or July) U.S. rate hike to a large extent, so this unlikely to lead to some steadfast dollar buying. However, there is still uncertainty about whether the BOJ will ease further and many market participants are expecting such a move, so this will probably act to support the dollar/yen pair. The pair's downside will probably edge higher amid real-demand selling.
Takada	109.00 – 113.00	Market risk sentiments are improving on the whole, so the dollar/yen pair will probably move firmly this month. Amid growing expectations for a U.S. rate hike, the pair's movements may be supported by verbal interventions from FRB officials and other high-ranking figures.
Sato	109.00 – 114.00	The dollar will probably be bought on rising expectations for a U.S. rate hike. On the Japanese side, with upper house elections looming, the dollar/yen pair will also be supported by rising policy expectations (in relation to the postponement of the consumption tax hike, the formation of a supplementary budget, and further BOJ easing).
Nishitani	108.00 – 115.00	Risk sentiments are improving on the firm movements of stocks and crude oil prices. With expectations for a U.S. rate hike also rising, the dollar is likely to remain susceptible to buying. There are risks related to the UK referendum, but if the UK votes to remain in the EU, as recent opinion polls suggest it will, sentiments will probably improve further.

Bearish on the dollar (5 bears: 105.00–113.00, Core: 107.00–113.00)

Yamashita	105.00 – 112.00	FOMC members have made hawkish comments in order to raise market expectations for a U.S. rate hike, but these do not seem convincing. The FRB is actually quite averse to risky events, so it will probably not lift rates before the Brexit referendum is out of the way. The dollar/yen pair has moved strongly on expectations for U.S. rate hikes, but this trend is likely to come to an end this month.
Nishijima	107.00 – 113.00	Expectations for further U.S. rates hikes in June or July may flare up depending on the contents of FRB Chair Janet Yellen's speech on June 6, but market participants will find it hard to actively build up dollar long positions until the Brexit issue is put to bed. The Japanese decision to postpone a consumption tax hike will initially lead to bullish stocks and a weak yen, but this trend will be short-lived and the dollar/yen pair may be pushed lower as market participants lock-in profits on a sense the pair is now at a good price, so caution will be needed.
Omi	106.00 – 113.00	The dollar/yen pair may only undergo a slight rise. In fact, the pair faces a number of pitfalls, such as the slow pace of further rate hikes in the U.S. or the weak movements of the Nikkei Average. Under these circumstances, perhaps the best the pair can hope for is to retain its current level. Risk sentiments could worsen if crude oil prices drop back after moving sluggishly just below $50, so caution will be needed.
Shimoyama	108.00 – 113.00	The markets will probably wait to see the results of the Brexit referendum. FRB Chair Janet Yellen may strike a hawkish tone in her speech on June 6, but in the face of a potential British exit from the EU, the FRB is unlikely to make any moves until the results are out, so a rate hike will probably have to wait until July at the earliest. Until the end of June, the dollar/yen pair's topside will probably be held down as speculators sell the dollar to lock in profits and Japanese exporters convert funds into yen.
Moriya	107.00 –	The dollar has strengthened since mid-May on rising expectations for further U.S. rate hikes. However, the UK Brexit referendum could invite financial market turmoil depending on the results, so the FRB is unlikely to make

	113.00	any moves until the referendum. There is also likely to be strong appetite for selling on a rally when the dollar/yen pair climbs, so the pair's current appreciation is expected to be short-lived.

Kazuhiko Fujisaki, Forex Sales, Forex Department

Euro – June 2016

Expected Ranges **Against the US$: US$1.0800–1.1400**
Against the yen: JPY118.00–126.00

1. Review of the Previous Month

The euro moved with a heavy topside and fell against the dollar in May. Its movements against the yen were shaped by U.S.-dollar factors, with the euro/yen continuing to trade in a range.

The euro/dollar pair began the month trading at the upper-$1.14 level. With long-term interest rates sliding on growing doubts about the next U.S. rate hike, the pair temporarily hit the $1.16 range for the first time in around eight months, though it dropped back below $1.15 after an FRB official commented that the second rate hike could well be implemented at the June FOMC meeting. Amid growing concerns that the U.S. would post some weak April employment data on May 6, the pair's stay at $1.15 was short-lived and it slipped to around $1.14. When the employment data was released, it revealed that nonfarm payrolls (NFP) had only grown by 160,000. The markets had already factored in a bearish result, though, so the pair moved around $1.14.

The euro/yen pair continued to move stably in a range around 122 yen from the start of the month onwards. The March industrial production figures for Germany and France were released on May 10, with both dropping below prior expectations. With market participants also strongly aware of the risks posed by a Brexit vote, the euro moved with a heavy topside after a major U.S. bank recommended selling the euro over the upcoming weeks. As a result, the euro/dollar pair's range shifted down to around $1.13 on May 13.

The minutes to the March FOMC meeting were released on May 18. With the markets focusing on the possibility of a U.S. rate hike in June or July, U.S. long-term interest rates faced upwards pressure, with the dollar moving bullishly across the board. The euro/dollar pair fell to $1.1215. The euro's movements against the yen were influenced by the bullishness of the dollar/yen pair, with the euro/yen pair bouncing back to the upper-123 yen level. The minutes to the regular ECB Governing Council meeting were released on May 19. The minutes contained a phrase to the effect that there was "a need to counter the perception that monetary policy could no longer contribute to a return of inflation." This led to growing expectations for further ECB easing, with the euro/dollar pair subsequently hitting a monthly low of $1.1180. The G7 meeting in Japan has no particular impact on the euro's movements, but with several FRB directors hinting at the possibility of a rate hike in June or July, the dollar faced more buying pressure. The euro/dollar pair fell to $1.1111 on May 27 after FRB Chair Janet Yellen commenting during a speech that a rate hike would be appropriate over the next few months. The euro/yen pair had remained in a range, but with the dollar/yen pair rallying to the upper-111 yen mark at the start of the week on May 30, the euro/yen pair also bounced back to 123 yen for a time. On the last day of the month, the euro rallied slightly against the dollar to hit the lower-$1.11 level, while it also rallied against the Japanese unit to close the month at the upper-123 yen mark.

2. Outlook for This Month:

The euro/dollar pair and euro/yen pair are both expected to have their downsides tested in June. Amid growing expectations for a U.S. rate hike, the dollar will probably face across-the-board face buying pressure. However, it will be hard for the FOMC to lift interest rates just one week before the June UK referendum on whether to leave the eurozone, so the main scenario is of a 25bp rate hike in July. With a U.S. presidential election looming in November, at most there is only likely to be one more rate hike. If the U.S. lifts rates to normalize monetary policy in the absence of any concerns about inflation or an overheating economy, it is unlikely to opt to continue lifting rates without confirming the impact of previous rate hikes. At most, there will be only be two more rate hikes before November. It is possibly the markets will move faster than expected to completely price in a U.S. rate hike, so caution will be needed.

Meanwhile, the eurozone faces no major economic problems on the whole, though the situation varies throughout the zone. With regards to monetary policy, the introduction of negative interest rates has yet to have any clear impact, so in the face of resistance from Germany and so on, it seems very unlikely that the ECB will opt to ease further. When it comes to fiscal policy, there is a shared basic policy that 'the government sector should spend less during the good times to prepare for the bad times,' so there is unlikely to be any large-scale government spending at this moment in time.

One worrisome factor for the eurozone is the Brexit issue. If the UK votes to leave the EU on June 23, this will have a massive impact on the economies of the UK and EU. Polls suggest opinions are more-or-less balanced. Considering the risk of a terror attack striking directly before the vote, though, it seems the pound and euro will both be susceptible to downward pressure in the near future. However, these concerns are about a one-off risk event: if the UK votes not to leave the EU, there will not be another vote any time soon. As a result, there is a risk the euro's fortunes will reverse around June 23, so caution will be needed.

Turning to the euro/dollar pair, and if the Brexit risk is wiped away, then dollar buying on the back of expectations for one or two more rate hikes will probably be short-lived. The euro will be prone to downswings in the run up to the June 23 referendum. If the UK votes to stay, the euro will then be bought, though it will be sold off further in the event of a leave vote. However, the eurozone has a huge current account surplus and this will probably support the single currency. The euro will probably move with a heavy topside against the yen due to event risk, but with expectations for policy mobilization rising in the run up to the July upper house elections in Japan, the yen will be susceptible to downward pressure from the latter half of June. There is substantial disparity when it comes to the trade balance, so the pair will be easily swayed by capital flows. As a result, market participants should also watch out for moves by speculators to unwind their yen long positions. If the UK votes to remain in the EU, the euro may bounce back sharply after June 23. Events to watch out for include the regular ECB Governing Council meeting on June 2, the release of the CPI data on June 16 and the current account balance on June 17, and the UK referendum on June 23.

Dealers' Market Forecast

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

Bullish on the euro (2 bulls: 1.1000–1.1500, Core: 1.1055–1.1450)

Yamashita	1.1000 – 1.1500	The euro will find it hard to move in June on the Brexit issue and speculation about U.S. rate hikes, but the eurozone economy continues to move stably and the ECB will probably hold off from further easing for now. The euro is expected to edge higher on the eurozone's huge current account surplus.
Omi	1.1100 – 1.1400	Though the euro fell on rising expectations for U.S. rate hikes, the euro/dollar pair continues to trade within a range. The momentum for U.S. rate hikes is likely to be short-lived and even if the FOMC does lift rates this month, for example, any euro selling on the back of dollar buying will be limited in nature.

Bearish on the euro (9 bears: 1.0600–1.1400, Core: 1.0800–1.1300)

Fujisaki	1.0800 – 1.1400	The euro will be sold on Brexit fears and rising expectations for U.S. rate hikes. The single currency will probably move with a heavy topside until the results of the June 23 Brexit vote are confirmed. The results are expected to be close, but if the UK decides not to leave, the euro will shoot back up as speculators adjust their positions and hedge positions are eliminated, so caution will be needed.
Kato	1.0600 – 1.1300	With the next U.S. rate hike becoming a distinct possibility, the euro will continue to face selling pressure. However, eyes are focused on the UK vote to leave the EU, scheduled for the latter half of the month, and the euro may be bought back on position adjustments.
Yano	1.0800 – 1.1300	The primary reason for the current euro/dollar pair adjustments is an unwinding to the trend of dollar bearishness. With the next U.S. rate hike looking like a certainty, the euro will probably trade with a heavy topside on the whole. The largest risk will be a UK vote not to leave the EU. Short covering will probably accelerate as hedges are unwound together with the pound, so there is a risk the euro will shoot back up.
Takada	1.0800 – 1.1300	June will probably see attempts on the euro's downside as the dollar is bought on expectations for an FRB rate hike. The euro is also being sold on Brexit concerns, and although this trend is easing off, market participants will find it hard to actively build up euro positions until the matter is finally decided on the day of the UK referendum.
Sato	1.0900 – 1.1300	The euro will continue to move bearishly on growing expectations for U.S. rate hikes. However, there will also be fund repatriations by European firms toward the end of the quarter, so the euro's room on the downside will also be capped.
Nishijima	1.0700 – 1.1300	European currencies will all trade with a heavy topside until the Brexit issue is put to bed. If the UK votes to remain in the EU, the euro will probably face more selling pressure for a time on pound buying. Even if the ECB opts to leave monetary policy unchanged, market participants will focus on further easing in future and, as such, will refrain from actively buying the single currency.
Shimoyama	1.0800 – 1.1300	The euro lacks its own specific factors, so its movements will probably be shaped by the dollar. Speculators and so on will find it hard to move until the Brexit referendum. If anything, the dollar is likely to be bought slightly on expectations for a U.S. rate hike. Furthermore, if the UK votes to remain in the EU, the euro/pound pair's movements will be marked by euro selling and pound buying.
Nishitani	1.0700 – 1.1300	As risk sentiments improve, the euro will continue to slide at a gentle pace. Amid rising expectations for a U.S. rate hike, the dollar will be bought across the board, with the euro weakening as a result. Furthermore, amid a growing sense of optimism with regards to the Brexit issue, there will probably be more pound buy-backs, with the euro pulled lower by the bearish movements of the euro/pound pair.
Moriya	1.0700 – 1.1300	Though expectations for further ECB easing are not on the rise, the euro's topside will probably be weighed down by expectations for an early U.S. rate hike and concerns about a Brexit. Depending on the results of the UK referendum, the euro may swing back sharply, so caution will be needed. On the whole, though, the euro is expected to move with a heavy topside.

Hidetoshi Honda, Europe Treasury Department

British Pound – June 2016

Expected Ranges	Against the US$:	US$1.4300–1.5200
	Against the yen:	JPY158.00–166.00

1. Review of the Previous Month

The pound moved flatly within a relatively narrow range in May. At the start of the month, sterling rose to a four-month high of $1.4695 against the dollar (May 3), though it then crashed back. It then moved bearishly on the whole in the first half of the month, though it moved firmly across the board against major currencies like the yen and euro (and particularly the dollar) from mid-May to the end of the month.

Sterling's bearishness in the first half of May was due to the weak results of the UK's manufacturing PMI for April, released after a long weekend on May 3. At 49.2, this was the first time in 39 months that the indicator had dropped below 50, the key line dividing expansion from contraction. The April construction PMI and services PMI were then released on May 4 and May 5 respectively, with both falling below market expectations. This led to growing speculation that the UK economy was already slipping into recession, with firms holding off from capital investment due to a sense of uncertainty in advance of the June 23 UK referendum on whether to remain in the EU.

Mid-may saw the release of the mixed results of several major UK economic indicators. The reaction of sterling also seemed muted, but a glance back over the month suggests the pound's rally was set off by: a slight upswing in the first quarter average wages data (including bonuses; the previous month's figure was also revised upwards), released May 18; and a large upswing in the retail sales data for April, released May 19. The UK CPI data for April was released on May 17. This fell, with the core CPI figure also slowing at a surprisingly fast pace, down from +1.5% year-on-year in March to +1.2% y-o-y in April. In fact, though, the exceptional result was probably the March surge in prices, so perhaps the April data could also be read as showing that 'underlying inflation is not weak.'

Around this time, the eyes of the financial markets shifted to the likelihood of a U.S. rate hike. This was down to the May 18 release of the minutes to the FRB's April Federal Open Market Committee (FOMC) meeting, with the minutes seen as positive towards to the possibility of a June rate hike. Expectations for a summer rate hike had more-or-less been doused, but with several high-ranking FRB officials also dropping hints about a possible June or July rate hike, these expectations now ballooned again.

As these expectations flared up again, the dollar moved strongly across the board in the currency markets, though the pound's slide against the greenback was comparatively muted and it soon began climbing again. This was because these expectations were more-or-less drowned out by a growing sense of relief that the prospects of a Brexit had diminished. Considering the unreliability of past opinion polls (related to the Scottish independence referendum in September 2014 or the general election of May 2015), it would be unwise to place too much faith in the polls and so on, but with various polls and bookmakers' odds all pointing to a rise in support for the remain camp and a fall in support for the leave camp, this growing sense of relief was perfectly understandable.

2. Outlook for This Month:

The pound is expected to move firmly in June. There is a growing sense of relief that the UK will opt to remain in the EU. This will probably give sterling more room on the topside. If it is confirmed that the UK has voted to stay, the pound can be expected to climb higher. The referendum will close at 10pm local time (GMT: 9pm) on June 23, with exit polls likely to be released soon thereafter. If the exit polls do not point to a clear result, then the markets will have to wait until the results are formally announced on June 24 early morning local time.

Prime Minister David Cameron first announced the June 23 date of the referendum on February 21 this year. If we assume this latter date marks the start of sterling's movements as a 'referendum currency,' then the pound has already risen above its closing price against the dollar ($1.4405) and the euro (0.7725) on Friday, February 19 (the last trading day before February 21). With the pound/yen pair's closing price on that day also standing at 162.14 yen, it seems sterling only has limited room to climb further. However, it is also possible to point to two other days as the true starting point for sterling's movements as a 'referendum currency': November 3, 2015, when Chancellor of the Exchequer George Osborne set out the UK's five conditions for remaining in the EU; or November 10, 2015, when Mr. Cameron published his letter to the President of the European Council Donald Tusk (the EU president) setting out the EU reforms he was seeking. In these cases, targets for the pound's topside would probably be between $1.50–1.55 against the dollar, 186 yen against the Japanese unit, and between GBP0.710–0.715 against the single currency.

Of course, concerns about a leave vote resulted in some (what may turn out to be) unnecessary pound selling, so a backlash to this may see the pound rising above these levels. However, in addition to this sense of relief about a remain vote, growing expectations for a Bank of England (BoE) rate hike will be crucial if the pound is to remain on an upwards trajectory toward summer. In its May inflation report, the BoE pointed to the 'Brexit risk' as the biggest uncertainty facing the UK economy. Let's imagine what would happen if this uncertainty totally dissipates after June 23. With crude oil prices steadily recovering to around $50/barrel, it will be possible to confirm as early as September (when the August inflation figure is announced) that the general CPI data is moving closer to the core CPI figure. Hypothetical speaking again, if it is then confirmed that wages have bottomed out, BoE Governor Mark Carney may well show his hawkish side (after having hastily given prior notice of rate hikes several times in the past).

Of course, if the UK votes to leave the EU, the scenario will shift 180 degrees. At the very least, the pound will probably plummet to break below recent lows (of $1.3836 against the dollar and 151.66 yen against the yen). Sterling's movements against the dollar will also be impacted substantially by

U.S. rate hikes (or advance notice thereof). UK indicators to watch include the April manufacturing and industrial production figures (released June 8), the May CPI data (June 14), the February–April average wages data (June 15) and the May retail sales figures (June 16). With the referendum looming, the meeting of the BoE's Monetary Policy Committee (MPC) on June 16 will probably prove uneventful.

Miki Yamaguchi, Sydney Branch

Australian Dollar – June 2016

Expected Ranges	**Against the US$:**	**US$0.6820–0.7400**
	Against the yen:	**JPY76.00–81.00**

1. Review of the Previous Month

In May, the AUS/USD pair fell by a huge 6%, from the lower USD0.76 mark to the upper-USD0.71 level.

It began the month trading around USD0.76 mark on May 2. The pair then hit a monthly high of USD0.7720 on a bearish U.S. Manufacturing ISM Report on Business for April and better-than-expected Australian building approvals data for March. However, the board of the Reserve Bank of Australia (RBA) sprung a slight surprise on May 3 when it carried out a 25bp rate cut. With the RBA's policy rate now renewing a historical low of 1.75%, the AUD/USD pair plunged to the upper-USD0.75 level. With commodity prices dropping in overseas markets, the pair then slid to the upper-USD0.74 mark. In the RBA's Quarterly Statement on Monetary Policy, released May 6, the inflation outlook was lowered substantially, with the currency pair then dropping to the upper-USD0.73 range. The pair then weakened to the lower-USD0.73 level during overseas trading time on the worse-than-expected results of the April U.S. employment data, with the Australian unit also hit when iron ore prices fell by over 3%. With major nations then releasing no new economic indicators for a time, the pair continued to hover at the USD0.73 mark. Expectations for an early U.S. rate hike swelled and the greenback was bought on May 13 after the U.S. April retail sales data outperformed market expectations. As a result, the currency pair dipped to mid-USD0.72.

The minutes to the May 3 RBA board meeting were released on May 17. These were actually not that dovish (inclined in the direction of monetary easing) and they revealed that members had considered keeping rates fixed. This saw the currency pair shooting back to the mid-USD0.73 level. However, the minutes to the April FOMC meeting were released the following day and they contained a phrase that "if incoming data were consistent with economic growth picking up in the second quarter, labor market conditions continuing to strengthen, and inflation making progress… then it likely would be appropriate for the Committee to increase the target range for the federal funds rate in June." As expectations for an early U.S. rate hike grew, the greenback was bought and the AUS/USD pair dropped back to mid-USD0.72. It temporarily dipped below USD0.72 on May 19 after New York FRB President William Dudley commented that the U.S. economy might be strong enough to warrant a rate hike in June or July. The pair then floated around USD0.72, though it temporarily fell to a monthly low of USD0.7145 on May 25. It dropped to the upper-USD0.71 level on May 27 after it was reported that FRB Chair Janet Yellen had said the FRB should lift rates in the coming months if growth picked up as expected and jobs continued to be created. However, it bounced back to end the month trading at the mid-USD0.72 mark after Australia posted some better-than-expected building approvals data on May 31.

2. Outlook for This Month:

In June, the AUD/USD pair is expected to trade with a heavy topside, with attention focused on whether the FOMC will lift rates when it meets over June 14–15.

The RBA implemented a rate cut for the first time in a year last month. With this rate cut, the RBA's policy rate now stands at 1.75%, a historical low. The first quarter Australian CPI result (released in April) was extremely weak and this is thought to have prompted the cut. Furthermore, the inflation outlook was lowered substantially in the RBA's Quarterly Statement on Monetary Policy, released last month, with speculation about a further rate cut now smoldering away. However, the RBA will probably want the monitor the impact of the May rate cut or further inflation data before it decides to implement more easing, so the next rate cut will probably take place after the 2Q CPI data is released at the end July, possibly at the August RBA board meeting at the earliest.

In the U.S., meanwhile, the FOMC is set to meet over June 14–15. In March, the federal funds rate projections of FOMC members pointed to two more rate hikes within 2016 (estimated at +25bp each time). The FOMC will be meeting five more times this year, in June, July, September, November and December. The FOMC will probably lift rates once between June–September and once in December. After the Chinese stock market shock in August 2015, there has been a sharp increase in references to the 'global situation' in FOMC statements. This reveals that FOMC members are now paying close attention to global economic trends as well as the economic situation in the U.S. Global attention will be focused on the June 23 UK referendum on whether to leave the European Union. The June FOMC meeting will take place a week before this vote, so the FOMC will probably hold off from raising rates in June, with the FOMC's statement or FRB Chair Janet Yellen's press conference sending a message that leaves the door open for a rate hike in July or September.

As mentioned above, though a further rate cut looks on the cards in Australia, the U.S. is heading towards a rate hike. This discrepancy in monetary policy will probably lead to ongoing Australian-dollar selling and U.S.-dollar buying, with the Australian unit expected to continue moving bearishly. Furthermore, the U.S. short-term interest rate futures market has only priced in a 30% chance of a June rate hike, so if the FOMC does opt to lift rates in June, this will come as a surprise and the AUD/USD pair may fall close to its low for the year of USD0.6827.

Australian factors to watch out for in June include the 1Q GDP result (released June 1), the retail sales data and the trade balance (released June 2), the RBA board meeting (June 7), the employment data (released June 16) and the minutes to the RBA meeting (released June 21).

Katsuhiko Takahashi, Americas Treasury Department

Canadian Dollar – June 2016

Expected Ranges	**Against the US$:**	**C$1.2461–1.3188**
	Against the yen:	**JPY82.25–85.46**

1. Review of the Previous Month

Sand oil production forecasts were downgraded at the start of May due to a huge forest fire in Canada. During this time, the USD/CAD pair rose to C$1.28 following the release of Canada's trade balance for March, which revealed that the trade deficit had swollen from C$470 million in February to C$3.41 billion in March. This was the largest deficit since 1996. Canada's employment data for April was then released. The unemployment rate was 7.1% which unchanged on the previous month, despite forecasts that it would rise, so the Canadian dollar was bought for a time. However, the number of people in work unexpectedly fell by 2,100 on the previous month and this led to an acceleration of Canadian-dollar selling. The USD/CAD pair moved erratically during this time, first dipping to around C$1.2840 and then soaring back to C$1.2952. The U.S. employment data was released on the same day. Though the data was worse than expected, the subsequent reaction was short-lived. With recent movements also coming under some adjustment in the forex markets, the greenback was bought back and the currency pair recovered to the psychologically-important C$1.30 mark before rising to C$1.3015 for a time.

Market risk sentiments improved mid-May on bullish crude oil prices. Commodity currencies and so on were bought back in the forex markets, while the greenback's rise was also halted. As a result, the USD/CAD pair fell to C$1.2772. However, the U.S. dollar then faced more buying pressure after the minutes to the FOMC meeting roused expectations for a June U.S. rate hike. This saw the currency pair rising temporarily to C$1.3154 for the first time since April 8.

At the end of May, the Bank of Canada made its overnight lending rate announcement on May 25. Despite what some observers had predicted, the rate was kept at 0.50%, so the USD/CAD pair fell on Canadian-dollar short covering. The Canadian unit was also boosted when the WTI futures market showed crude oil rallying to US$50/barrel for the first time since November last year. As a result, the currency pair dropped to C$1.2911 for a time.

2. Outlook for This Month:

The minutes to the FOMC meeting (released last month) hinted at the possibility of an FRB rate hike in June or July. The markets had not sufficiently priced in a U.S. rate hike, so the minutes came as a surprise, with the U.S. dollar strengthening in the forex markets. Crude oil prices continue to move firmly. Market participants tend to focus on the correlation between the Canadian unit and crude oil movements, but as well as placing buying pressure on the greenback, the FOMC minutes have also prompted some adjustment to accumulated Canadian-dollar long positions. With an FOMC meeting looming on June 15, market participants will grow more alert to the possibility of a U.S. rate hike, with the U.S. dollar moving bullishly as a result.

The USD/CAD pair's target in the near future will be C$1.3312, which represents a 38.2% retracement of the pair's fall from a high of C$1.4690 to C$1.2461. If it tops this level, the next target on the topside will probably be C$1.3575, which represents a 50% retracement.

Shimon Yoshida, Seoul Treasury Office

Korean Won – June 2016

Expected Ranges	**Against the US$:**	**KRW1,170–1,230**
	Against the yen:	**JPY8.79–9.52 (KRW100)**
		(KRW10.50–11.50)

1. Review of the Previous Month

The USD/KRW pair rose in May on expectations for a U.S. rate hike.

The pair strengthened at the start of the month. It opened trading at KRW1142.0 on May 2, up 2.7 won on the end of April. With a long weekend looming from May 5, the won saw some real-demand buying, with the pair subsequently moving with a heavy topside. It hit a monthly low of KRW1133.1 on May 3, but the won was then dragged lower when the Australian dollar fell by around 2% against the U.S. dollar after the Reserve Bank of Australia (RBA) unexpectedly implemented a rate cut. May 4 saw some short covering as the greenback moved bullishly across the globe, with the USD/KRW pair heading into the long weekend at the mid-KRW1150 mark. During the holidays, the currency pair rose in the offshore (NDF) market on short covering. The much-anticipated U.S. April employment data turned out to be somewhat bearish, but the dollar continued to be bought.

The pair appreciated mid-May. At the closely-watched Bank of Korea (BOK) Monetary Policy Committee (MPC) meeting on May 13, the policy rate was kept at 1.5%, as expected by the markets. Expectations had been rising in some quarters for a rate cut, so the pair's gains were pared back for a time after the announcement, but with expectations for further easing continuing to smolder away following BOK governor Lee Ju-yeol's press conference, the pair rose again. In his press conference, Mr. Lee stated that the MPC's decision had been a unanimous one, but he also noted that rates had been cut in the past even when monetary policy was adjudged to be accommodative. He also stated he would meet with Deputy Prime Minister for the Economy and Finance Minister Yoo Il-ho if necessary. With crude oil prices moving firmly thereafter, expectations for a U.S. rate hike rose on the May 18 release of the minutes to the FOMC meeting, with the USD/KRW pair hitting KRW1190 on May 19 for the first time in around two months.

It then moved with a heavy topside at the month's end on concerns of currency intervention and real-demand won buying. Expectations for further BOK easing increased after the Korea Development Institute (KDI) downgraded its growth forecast for South Korea, but the pair continued to trade with a heavy topside on real-demand won buying. The pair hit monthly high KRW1193.3 just before the end of trading on May 31 before eventually closing at KRW1191.7, up 52.4 won on the end of April.

2. Outlook for This Month:

The USD/KRW pair is expected to move firmly in June. Market participants may test the KRW1200 mark at times.

Market momentum will probably be shaped by expectations for a U.S. rate hike. With expectations rising, particular attention should be paid to U.S. economic indicators and statements by high-ranking figures. The key point will be whether the U.S. economy has the strength to absorb a rate hike. One yardstick will be the reaction of the markets (particularly U.S. stock markets) to economic indicators and comments by key officials. U.S. stocks are moving firmly at the moment. One factor is the upswing in crude oil prices, but it will be fair to assume the U.S. economy is moving bullishly if the U.S. posts some strong indicators. If stocks fall sharply on the announcement of some bullish indicators, FOMC members may grow concerned that a rate hike could hit the economy. On the other hand, if stocks rise sharply, this could add momentum to further rate hikes. From this, it seems the decision about a June rate hike will be swayed not only by economic indicator headlines but also by the contents of these indicators, trends, and the reactions of the markets. The situation is ripe for some speculation about how things will develop, so the USD/KRW pair could see volatile trading.

Attention should also be paid to the possibility of further easing by the BOK. At the moment, expectations for a rate cut are not that high. The lame-duck minority administration of President Park Geun-hye is pushing for a restructuring of South Korea's zombie firms. If this push gains momentum, this will lead to rising expectations that the BOK will cut rates in order to ease the downward pressure on the economy.

Geopolitical risk in relation to North Korea still needs monitoring too. Tensions are cooling off a little and on the whole things are not expected to hit crisis point, but it will take time for tensions to calm, so the situation will need to be watched closely.

Other major events requiring attention are the ECB Governing Council meeting (June 2), the BOJ MPC meeting (June 16), and the Brexit referendum on whether the UK will leave the EU (June 23).

Junji Tsujino, Taipei Treasury Office

New Taiwan Dollar – June 2016

Expected Ranges	**Against the US$:**	**NT$32.25–33.00**
	Against the yen:	**JPY3.30–3.50**

1. Review of the Previous Month

The USD/TWD pair strengthened slightly in May due to: a U.S.-dollar rally on rising expectations for a June U.S. rate hike; and outflows of foreign funds from Taiwan's stock markets on concerns about Taiwan's new presidency.

The pair opened the month trading around TWD32.20. It weakened to the mid-TWD32.10 mark on May 3 as the greenback moved bearishly and market participants focused on a U.S. foreign exchange report, released the previous weekend. The South Korean won and the RMB then moved bearishly on hawkish comments by Atlanta FRB President Dennis P. Lockhart on May 3. With Taiwanese stocks also falling, the pair rose to TWD32.35 on May 4. With the greenback continuing to rally, the pair moved at the upper-TWD32.30 mark over May 5–6 in advance of the release of the U.S. employment data for April.

The closely-watched U.S. April employment data was released on May 9. It fell below market expectations, but with market sentiments improving, the U.S. dollar strengthened slightly in the end and the pair remained around TWD32.40. It then climbed to TWD32.50 on May 10 on the back of yen and won selling. The yen fell further on May 13. With foreign investors also continuing to sell on balance in Taiwan's stock markets, the pair rose to around TWD32.60. The U.S. posted some better-than-expected April retail sales data at the weekend. As the greenback made gains, the Taiwanese unit was sold and the USD/TWD pair hit the mid-TWD32.60 level on May 16 before ending the day at TWD32.70. Though the Taiwan dollar rallied for a time on May 17, the pair once again hit the upper-TWD32.60 mark on May 18 on some bullish U.S. employment data. The minutes to the April FOMC meeting were released on May 18 and this led to growing expectations for a June rate hike, with the currency pair subsequently gaining to TWD32.80 for a time on May 19. It then swung to and for around TWD32.70 on May 20 after the new Taiwanese president's closely-watched induction speech passed smoothly.

Foreign investors had been selling Taiwanese stocks on balance continuously since April 28, but they finally switched to buying on balance on May 23, with the currency pair subsequently dropping to around TWD32.65. The pair floated at the TWD32.60 mark over May 24–25. With FRB Chair Janet Yellen due to give a speech, the U.S. dollar fell slightly over May 26–27, with the currency pair edging down to TWD32.50. The greenback rallied following Yellen's speech at the weekend, with the pair rising to TWD32.60 on May 30. With markets in the U.S. and Europe on holiday over May 30, the pair continued trading around TWD32.60 on May 31 amid a dearth of new factors.

2. Outlook for This Month:

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

Taiwan's 1Q GDP data was revised upwards to -0.68% year-on-year. Released at the same time, the government's 2016 GDP forecast downgraded the growth rate outlook from +1.47% y-o-y to +1.06% y-o-y. The reduction range in export orders and industrial production had shrunk in the March data, but the April statistics showed these sectors falling deeper into negative territories again. It could be said the March improvement was a temporary one caused by a swing back after the February Lunar New Year holiday, with the April result subsequently falling short of expectations.

The Bank of Taiwan (BoT) will be holding its regular Monetary Policy Committee (MPC) meeting in June. It lowered policy rates on successive occasions when it met in September and December last year and this March, with the overnight rate (the market rate) dropping to around 0.2% (Taiwan's policy rate is the discount rate applied when private banks park discounted bills at the BoT). The overnight rate's lowest level since the Lehman Shock was 0.1%. Based on the movements of the overnight rate after a rate cut, it appears there is only room for two more cuts. Despite this, it would be perfectly understandable if the BoT implemented a rate cut this month given that: (1) the 1Q GDP data dipped into negative territories; (2) Taiwan still has a comparatively-high real interest rate according to the country-by-country real interest rate comparison presented at the last MPC meeting; (3) the policy rate stands at 1.5% and the BoT has stated it still has room to pursue conventional monetary policy. A glance back at the USD/TWD's movements after whispers of a rate cut were heard last August shows the Taiwanese unit weakening slightly on a bearish Dollar Index and the flat movements of the Korean won, so it seems expectations for a rate cut have helped to guide the Taiwan dollar lower. There is a danger that the impact of any rate cut could be totally swallowed up if the U.S. dollar falls sharply, but with the greenback set to trade firmly on expectations for a June rate hike, it seems the Taiwan dollar will weaken slightly this month.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – June 2016

Expected Ranges	**Against the US$:**	**HK$ 7.7600–7.7800**
	Against the yen:	**JPY 13.89–14.40**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in May

In May, the U.S. dollar/Hong Kong dollar exchange rate climbed gradually, as the contents of the minutes of the FOMC meeting in April turned out to be hawkish, and the rate fluctuated at around HKD 7.77 to the U.S. dollar. The possibility of an interest rate hike at the FOMC meeting in June was reflected in the market again, encouraging market participants to buy the U.S. dollar. As a result, the U.S. dollar/Hong Kong dollar exchange rate rose from HKD 7.76 to approach HKD 7.77. However, the one-year U.S. dollar/Hong Kong dollar forward point remained within a narrow range between 0–100 points. It should also be mentioned that the Hong Kong dollar exchange market remained relatively stable despite the fact that expectations were growing for an interest rate hike in the U.S., while concerns were growing regarding the economic outlook in China.

Hong Kong dollar interest rate market in May

In May, the three-month HIBOR dropped further from 0.54% and reached the 0.51% level for the first time since January this year. The Hong Kong Monetary Authority (HKMA) announced the current account balance (the amount of deposits at the HKMA for private banks) as of the end of April, and the figure remained at around HKD 330 billion despite the fact that the amount of paper currency issued has been declining. While the Hong Kong dollar interest rate swap rates have remained almost flat, the U.S. dollar interest rate swap rate rose, reflecting the expectations for an interest rate in June. As a result, the gap between the Hong Kong dollar interest rate swap rate and the U.S. dollar interest rate swap rate narrowed. The five-year rates have remained almost at the same level, and there is no gap. The negative figure has decreased for the Hong Kong dollar basis swap (the spread between the HKD HIBOR and the USD LIBOR) as a result of growing expectations for an interest rate hike in the U.S., and there was no particular trend of Hong Kong dollar conversion in the market, keeping the market quiet.

Hong Kong stock market in May

In May, the benchmark Hang Seng Index fluctuated between the upper- 19,000 level and around 21,674, the 200-day moving average line, as a result of the return of concerns over an economic slowdown in China as well as expectations for an interest rate hike in the U.S. The stock market remained relatively stable, even though there were some persistent concerns over capital outflow. As a result, the Hang Seng Index also remained stable at around 20,000.

2. Outlook for This Month:

Hong Kong dollar spot exchange market in June

The U.S. dollar/Hong Kong dollar exchange rate is expected to remain within a narrow range between HKD 7.76 and HKD 7.78 in June. As market participants are expecting again for the interest rate to be raised in the U.S. in June, the interest rate differentials have been growing, leading the U.S. dollar/Hong Kong dollar exchange rate to rise. As the FRB became more hawkish than before regarding the pace of the interest rate hikes, market participants have been buying the U.S. dollar in a more accelerated manner, keeping the Hong Kong dollar from appreciating. However, the offshore Chinese yuan market has so far been stable. Therefore, it is unlikely for the U.S. dollar/Hong Kong dollar exchange rate to appreciate sharply, as was seen in January this year. On the other hand, there were some market participants buying the Hong Kong dollar in order to pay dividends, which is likely to keep the Hong Kong dollar from depreciating.

Hong Kong dollar interest rate market in June

Short-term Hong Kong dollar interest rates are expected to remain stable, thanks to the high level of liquidity in the market. While it is likely for the interest rate to be raised in the U.S. in June, the pressure to procure the U.S. dollar is likely to strengthen in the times ahead, which makes it likely for the interest rate differential between the three-month HIBOR and the U.S. dollar LIBOR, which is currently negative, to be widened further. The interest rate hike in the U.S. is also expected to raise the Hong Kong dollar basis swap rate. However, as the momentum of the interest rate hikes in the U.S. and as economic growth in China has become weaker compared to January, the Hong Kong dollar interest rate is likely to stabilize again once the market sentiments return to normal.

Chihiro Agekido, Treasury Division, MHBK (China)

Chinese Yuan – June 2016

Expected Ranges	**Against the US$:**	**CNY 6.4000–6.6000**
	Against the yen:	**JPY 16.36–17.66**
	Against 100 yen:	**CNY 5.6650–6.1100**

1. Review of the Previous Month

Foreign exchange market: The U.S. dollar/Chinese yuan exchange rate fluctuated within the range between CNY 6.47 and CNY 6.59.

The Chinese yuan remained weak in May. At the beginning of the month, market participants cancelled their U.S. dollar-selling positions that had been accumulating so far, as the release of the U.S. employment statistics was approaching. As a result, the U.S. dollar index started rising. The People's Bank of China central parity rate was also set toward a weaker Chinese yuan and a stronger U.S. dollar on a daily basis, following which the actual trading rate also moved toward a weaker Chinese yuan.

On May 9, the *People's Daily*, which is the official newspaper of the Chinese Communist Party, released an article to introduce an interview with a person who is said to be an official at the Chinese monetary authority. It was once more underlined that structural reforms would be essential by becoming more independent from loans. He also mentioned the specific period for the economic outlook by stating that "the economic trend would not be in a "U" form or a "V" form but in an "L" form, and that it would not end in a year or two." As a result, the pessimistic view regarding the Chinese economy and the Chinese yuan exchange market further impacted the market. In the offshore market, the Chinese yuan depreciated even more than in the onshore market. The gap between the onshore Chinese yuan market rate and the offshore Chinese yuan market rate once approached 400 points. Thereafter, the market stabilized temporarily. However, the minutes of the FOMC meeting in the U.S. were released on May 19, and the contents were considered to be more hawkish than expected. As a result, the U.S. dollar index climbed with growing expectations for an interest rate in the U.S. at an early stage. On May 19, the following day, the People's Bank of China central parity rate was set at CNY 6.5531 to the U.S. dollar, with the weakest Chinese yuan in approximately three and a half months. Following this, in the actual trade market, the Chinese yuan remained weak thereafter.

Interest rate market: The interest rate market remained stable as concerns over the liquidity level were mitigated.

The interest rate market remained relatively stable in May. At the end of April, the details regarding the value-added tax reforms were announced, revealing that inter-bank repo transactions were not included in the scheme, contrary to what rumors were saying. In response to this, the overnight SHIBOR, which had so far been on the rise, fell by approximately five basis points at the beginning of the month. The overnight SHIBOR remained flat at around 2% thereafter. In the money market, open-market operations had been absorbing funds in the market until the middle of the month. Furthermore, the liquidity level tightened temporarily as a result of capital demand to pay taxes. However, in the second half of the month, the situation was reversed, and open-market operations started supplying funds in the market, while funds were also supplied through Medium-term Lending Facilities (MLFs) as well as through major Chinese banks, which maintained the liquidity level in the market, promoting overall stability.

2. Outlook for This Month:

Foreign exchange market

Even though the Chinese yuan may weaken temporarily in June, it is expected to rally thereafter. Market participants are aware of the possibility for the interest rate to be raised at the FOMC meeting in June. Thus, depending on the economic indices in the U.S., the U.S. dollar index may rise toward the middle of the month, leading the Chinese yuan to depreciate against the U.S. dollar. If the FOMC decides to raise the interest rate, the Chinese yuan is expected to depreciate even further. However, if that happens, the PBOC would maintain the stability in the market through its central parity rate. Given that there has been no change in the regulations regarding foreign currency purchases by the Chinese monetary authorities, the Chinese yuan is expected to start gradually appreciating after temporarily depreciating against the U.S. dollar.

In the previous month, the Chinese yuan depreciated further in the offshore market, widening the gap between the onshore Chinese yuan exchange rate and the offshore Chinese yuan exchange rate. When the gap widened in January, there were U.S. dollar-selling actions seen in the market, which were considered to be an intervention by the Chinese monetary authorities. Therefore, market participants should keep an eye out on this gap.

Interest rate market

The interest rate market is expected to remain stable. In the previous month, the market liquidity level once tightened along with growing capital demand for tax payment. However, major Chinese banks are lending funds, while the Chinese monetary authorities are also supplying funds to the market through open-market operations as well as through MLFs, in order to stabilize the market. Therefore, it is not likely for the interest rates to appreciate sharply.

Satoshi Yoshida, Asia & Oceania Treasury Department

Singapore Dollar – June 2016

Expected Ranges	**Against the US$:**	**SG$ 1.3500–1.3900**
	Against the yen:	**JPY 78.50–81.50**

1. Review of the Previous Month

The Singapore dollar depreciated in May. The Chinese economic indices were generally weak, and the FRB officials made a series of hawkish remarks, which weakened the overall Asian currencies. Under such conditions, the Singapore dollar remained sluggish in May after the announcement made in the previous month regarding the decision to discontinue the monetary policy to lead the Singapore dollar to appreciate.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange market opened trading at the mid-SGD 1.34 level. The central bank of Australia unexpectedly decided to cut the interest rate on May 3, in reaction to which the Australian dollar depreciated. Following this trend, the Singapore dollar depreciated and the U.S. dollar/Singapore dollar exchange rate reached the SGD 1.35 level. On May 6, the April employment statistics of the U.S. were released, and the number of non-agricultural employees turned out to be significantly weaker than expected in the market. As a result, market participants sold the U.S. dollar temporarily. However, immediately after this, New York Federal Reserve Bank President William Dudley made a hawkish remark regarding the interest rate hike in the U.S. Consequently, market participants gradually started to buy the U.S. dollar. In the end, therefore, the impact on the Singapore dollar exchange market was limited.

On May 9, it was forecast that the production of crude oil will decrease in the times ahead as a result of a forest fire in Canada. As a result, the crude oil price appreciated temporarily, after which it depreciated due to profit-taking selling. This strengthened the pressure to sell the Malaysian ringgit. This impacted the Singapore dollar exchange market as well, and the Singapore dollar depreciated sharply to the SGD 1.37 level. Thereafter, the U.S. dollar/Singapore dollar exchange rate continued fluctuating at the same level, following the trend in the crude oil market, which remained stable. On May 13, however, the year-on-year March retail sales of Singapore turned out to be stronger than expected, leading the U.S. dollar/Singapore dollar exchange rate return to the mid-SGD 1.37 level to SGD 1.37.

In the week commencing on May 16, concerns grew again over the outlook of the Chinese economy because of the weak figures seen in a series of Chinese economic indices that were released during the weekend before (i.e., April industrial production, retail sales, and fixed-asset investments). Furthermore, the minutes of the FOMC meeting were released on May 18, fueling expectations for an interest rate hike in June. In reaction to this, the U.S. dollar strengthened rapidly, leading the Singapore dollar to depreciate again. The Singapore dollar remained weak against the U.S. dollar thereafter at the lower-SGD 1.38 level, as expectations continued growing for early interest rate hikes in the U.S.

On May 23, the April Consumer Price Index (CPI) of Singapore was announced, and the year-on-year growth turned out to be -0.5%. This result was better than that of the previous month, which was -1.0% year-on-year, while it was also better than expected in the market. As a result, market participants bought back the Singapore dollar and the U.S. dollar/Singapore dollar exchange rate returned to the upper-SGD 1.37 level. Thereafter, market participants bought the U.S. dollar based on a series of hawkish remarks made by FRB officials. On the other hand, there were also market participants that bought back the Singapore dollar, based on the appreciation of stock prices in Singapore, led by the strong April housing-related indices in the U.S. as well as the stable crude oil market. With the mixture of these two types of actions, toward the end of the month, the U.S. dollar/Singapore pair traded at around SGD 1.38 without moving into any direction.

2. Outlook for This Month

The key in the Singapore dollar exchange market in June is whether the interest rate will be raised at the FOMC meeting to be held in the U.S. on June 15. However, the current appreciation of the U.S. dollar is generally considered to be temporary, and the downward trend in the Singapore dollar exchange market seen in May is expected to reverse in June.

In May, the Singapore dollar exchange market continued following the economic conditions in China, trends in the crude oil market, and the expected timing of the interest rate hike in the U.S. In particular, the minutes of the FOMC meeting were released on May 18, and they fueled expectations in the market for an interest rate hike in June. Furthermore, there were a series of hawkish remarks made by FRB officials, which led the U.S. dollar to continue appreciating. The overall Asian currencies have been weak since May. This trend of U.S. dollar appreciation may, as was seen at the beginning of this year, delay the outlook for the monetary policy among the FOMC members. In the times ahead, if expectations start to decline regarding the interest rate hike in the U.S. in June, market participants are likely to buy back the Singapore dollar, which they sold in May. Even if the interest rate is raised in the U.S. in June, market participants are likely to sell the U.S. dollar in order to take profits once the market stabilizes. Therefore, the Singapore dollar is forecast to start appreciating gradually.

On the other hand, it is difficult to expect the Singapore dollar exchange market to move due to domestic factors in Singapore. The inflation rate, which the Monetary Authority of Singapore (MAS) has been carefully watching, has remained negative in terms of year-on-year growth. Furthermore, the January–March quarter GDP was announced on May 25, and the result turned out to be +1.8%, almost as had been expected in the market. Therefore, the economic environment has not changed dramatically since April when MAS discontinued its policy to lead the Singapore dollar to appreciate. The Singapore economy is rather likely to weaken, as external demand such as that from China has been weakening, as was seen in the April export data. However, the slowdown in economic growth has already been reflected in the monetary policy of MAS since April. Thus, impact on the Singapore dollar exchange market is likely to be limited.

The high for the Singapore dollar is expected to be around SGD 1.35 against the U.S. dollar, which is the level before the one-sided depreciation of the Singapore dollar observed in May. On the other hand the low for the Singapore dollar is expected to be the SGD 1.40 mark. It is, however, possible for the U.S. dollar/Singapore dollar to temporarily exceed SGD 1.40 if the interest rate is raised at the FOMC meeting in the U.S. scheduled for June 15.

External factors in June include the FOMC meeting in the U.S. scheduled for June 14 and 15 as well as the monetary policy meeting at the Bank of Japan scheduled for June 15 and 16. Domestic factors include the announcement of the May Consumer Price Index (CPI), as the CPI has been recording negative year-on-year growth for 18 consecutive months so far.

Yuki Inoue, Bangkok Treasury Office

Thai Baht – June 2016

Expected Ranges	**Against the US$:**	**BT 35.00–36.20**
	Against the yen:	**JPY 3.05–3.12**

1. Review of the Previous Month

The U.S. dollar/Thai baht exchange rate was on a rise.

In the first part of the month, the U.S. dollar/Thai baht exchange rate rose to the THB 35.00 level. On May 2, the U.S. dollar/Thai baht exchange market opened trading at the THB 34.90 level. In the first week of the month, the onshore market was open only on May 3 and 4. On May 3, however, the Reserve Bank of Australia (RBA) announced its unexpected decision to cut its policy interest rate by 25 basis points. In reaction to this, market participants bought the U.S. dollar, selling Asian currencies. Following this trend, the U.S. dollar/Thai baht exchange rate returned to the THB 35.00 level. The depreciation of the crude oil price continued supporting the U.S. dollar thereafter, and the U.S. dollar/Thai baht exchange rate reached the THB 35.20.

In the middle of the month, the U.S. dollar/Thai baht exchange rate continued rising and temporarily reached the THB 35.80 level for the first time since February this year. As had been expected in the market, at its Monetary Policy Committee (MPC) meeting held on May 11, the central bank of Thailand (BOT) unanimously decided to keep its policy interest rate at 1.50%. In the statement, it was suggested that further interest rate cuts were possible, while concerns over the appreciation of the Thai baht were expressed. As a result, the U.S. dollar/Thai baht exchange rate rose to approach THB 35.30. Thereafter, Thai baht-selling dominated the market, and the U.S. dollar/Thai baht exchange rate reached the mid-THB 35.40 level. On May 16, the National Economic and Social Development Board (NESDB) announced the January–March quarter GDP of Thailand, and the result turned out to be +3.2% year-on-year—stronger than expected in the market. In reaction to this, Thai baht-buying once became dominant, and the U.S. dollar/Thai baht exchange rate fell sharply and temporarily reached the mid-THB 35.30 level. However, the depreciation of the exchange rate was limited, and on May 17, the following day, the Thai government bond yields appreciated sharply, which led the U.S. dollar/Thai baht exchange rate to rise to the THB 35.60 level. On May 18, the minutes of the FOMC meeting were released, implying the possibility of an interest rate hike in the U.S. in June. Consequently, U.S. dollar-buying became dominant in the market, and the U.S. dollar/Thai baht exchange rate rose to temporarily approach THB 35.80.

In the last part of the month, the U.S. dollar/Thai baht exchange rate remained low. After the release of the minutes of the FOMC meeting in the U.S., the U.S. government bond yields appreciated sharply. However, the sharp increase was adjusted, encouraging market participants to sell the U.S. dollar and buy Asian currencies. As a result, the Thai baht appreciated against the U.S. dollar and the exchange rate fell below THB 35.60. On May 24 and 25, FRB officials made a series of remarks pointing out the possibility of two interest rate hikes before the end of the year, which gradually encouraged market participants to buy the U.S. dollar. As a result, the U.S. dollar/Thai baht exchange rate appreciated again to approach THB 35.80. However, there were also market participants that were willing to sell the U.S. dollar mainly because of actual demand. Thus, the U.S. dollar/Thai baht exchange rate rapidly returned to THB 35.60, showing violent fluctuations. Thereafter, the Ministry of Commerce announced the April trade statistics, and the export level was at its lowest in the last four and a half years, at -8.0%. In response to this, the U.S. dollar/Thai baht exchange rate returned to the THB 35.70 level. Toward May 26, the appreciation of the U.S. dollar was adjusted and the crude oil price appreciated, leading Asian currencies to appreciate. As a result, the U.S. dollar/Thai baht exchange rate fell temporarily to the upper-THB 35.50 level. However, on May 27, FRB Chair Janet Yellen mentioned an early interest rate hike as part of her speech, which encouraged market participants to buy the U.S. dollar. As a result, the U.S. dollar/Thai baht exchange rate rose again to approach THB 35.80.

2. Outlook for This Month

The U.S. dollar/Thai baht exchange rate is expected to remain low.

The future outlook of the Thai economy remains uncertain. On May 16, the NESDB announced the January–March quarter GDP growth rate for Thailand, and the result was +3.2% year-on-year, which is the highest figure since the April–June quarter in 2013. However, this figure is mainly led by the expansion of gold exports and therefore is not an entirely an optimistic result. The NESDB has been optimistic about the annual GDP growth rate for 2016, revising the rate upward from "+2.8%–+3.8% year-on-year" to "+3.0%–+3.5% year-on-year" (median: +3.3%). However, according to the April trade statistics that were released on May 25, the export of gold products, which was on a steady rise since the beginning of the year, recorded a decline, leading to a significant decline in the overall export value at -8.0%. Thus, contrary to the optimistic view of the monetary authority of Thailand, the fragility and the uncertainty of the Thai economy have been confirmed in the market. It should however be added that the trade surplus, which is essential in predicting the trend in the U.S. dollar/Thai baht exchange rate, has been accumulating as a result of the significant decline of imports. This is likely to increase the upward pressure on the Thai baht exchange market in the medium to long term, despite the weakness of the Thai economy.

In terms of monetary policy, the MPC meeting was held by the BOT on May 11, and the policy interest rate was unanimously kept at the existing level, 1.50%. The minutes of the MPC meeting expressed concerns over the appreciation of the Thai baht while pointing out that risks for financial stability are increasing as a result of actions to seek high yields. Toward the middle of April, the Thai government bond yields, which had so far been renewing their all-time low, increased sharply. This is what the BOT pointed out as a result of excessive actions. However, according to the data collected by the Thai Bond Market Association (TBMA), sales of Thai government bonds by overseas investors have been limited despite the fact that government bond yields were rising sharply. On a monthly basis, there was more capital inflow into the Thai government bond market. If expectations grow further for an interest rate hike in the U.S. in June, capital outflow from the Thai government bond market may lead the Thai baht to depreciate, which should be kept in mind.

The appreciation of the U.S. dollar/Thai baht exchange rate has currently been slowing down before reaching the THB 36.00 mark. In May, the Thai baht continued depreciating almost without exception. If the Thai baht continues depreciating in June as was observed in May, the BOT may intervene in the market, in order to adjust its foreign currency reserves, which have been accumulating to their highest level in almost the past three years. Since the beginning of the year, the U.S. dollar/Thai baht has remained within a narrow range almost always at the THB 35.00 level for five months. Therefore, exporting companies are likely to sell the Thai baht at the THB 36.00 level. Thus, the appreciation of the U.S. dollar/Thai baht exchange rate in June is likely to slow down once before reaching THB 36.00.

Takashi Miyachi, Asia & Oceania Treasury Department

Malaysian Ringgit – June 2016

Expected Ranges	**Against the US$:**	**MYR 4.02–4.17**
	Against the yen:	**JPY 26.00–28.10**

1. Review of the Previous Month

The U.S. dollar/Malaysian ringgit exchange market opened trading at the lower-MYR 3.91 level on May 3, as the market was closed on May 2. On May 3, the Reserve Bank of Australia (RBA) announced its unexpected decision to cut the policy interest rate by 25 basis points, while the April manufacturing PMI of China was released with a figure weaker than expected in the market. As a result, risk-averse sentiment increased in the market. Furthermore, concerns grew again over a Malaysian government-led investment company (1MDB). As a result, on May 5, the Malaysian ringgit depreciated against the U.S. dollar to its lowest point since the second half of March this year, at the upper-MYR 4.01 level.

On May 9, market participants bought the Malaysian ringgit due to the fact that the April employment statistics of the U.S., which were released during the preceding weekend, were weaker than expected, and the U.S. dollar/Malaysian ringgit exchange rate reached MYR 3.990. However, on May 10, risk-averse sentiment grew in the overall market while the crude oil price had fallen on the previous day in overseas markets. As a result, the Malaysian ringgit depreciated against the U.S. dollar and the U.S. dollar/Malaysian ringgit reached the lower-MYR 4.06 level. Thereafter, the Malaysian ringgit rallied to a limited extent. However, the Malaysian ringgit weakened again toward the weekend, and weekly trading closed at the MYR 4.04 level to the U.S. dollar. It should be mentioned that the January–March quarter GDP of Malaysia was announced on May 13, and the result was +4.2% year-on-year—above the expected level. However, the impact on the Malaysian ringgit exchange market was limited.

In the middle of the month, the U.S. dollar/Malaysian ringgit exchange market opened trading at the lower-MYR 4.04 level, as market participants became pessimistic about the weak figures seen in the Chinese economic indices released during the preceding weekend. However, market participants bought back Asian currencies thereafter, and the Malaysian ringgit once appreciated against the U.S. dollar to the lower-MYR 4.01 level. However, the minutes of the FOMC meeting in the U.S. were released with hawkish contents on May 18, local time, fueling expectations for an interest rate hike in the U.S. in June. As a result, the Malaysian ringgit depreciated sharply against the U.S. dollar on May 19, temporarily reaching the lower-MYR 4.09 level.

In the second half of the month, the Malaysian ringgit started weakening again. On May 24, the monetary authority in Switzerland announced that a Swiss financial institution was involved in the suspicion surrounding 1MDB. In reaction to this, the depreciation of the Malaysian ringgit accelerated again and the U.S. dollar/Malaysian ringgit exchange rate reached the lower-MYR 4.13 level—the monthly low for the Malaysian ringgit. Thereafter, the crude oil price approached USD 50, while market participants started buying back the Malaysian ringgit so as to adjust their positions, leading the U.S. dollar/Malaysian ringgit exchange rate to return to the upper-MYR 4.07 level. However, the Malaysian ringgit rallied only to a limited extent.

2. Outlook for This Month

On May 13, the January–March quarter GDP of Malaysia was released, and the result was +4.2% year-on-year, exceeding the market estimate. However, the resource prices remained low, recording a decline for the fourth quarter. Positive factors remain, such as stable personal consumption. However, overseas demand remains low, and the support for the economic stimulus measures taken by the government and the central bank has been limited. Under such circumstances, it is difficult to expect the Malaysian economy to grow as it did before. While there has been no remarkable rally in the Malaysian fundamentals, market participants find it difficult to actively buy the Malaysian ringgit.

Furthermore, it should also be mentioned that, in the long-term government bond market, bond-buying activities have not been as active recently as they were from January to April this year. It can therefore be imagined that the Malaysian stock market has also been sluggish, and overseas investors have been losing their investment appetite toward Malaysia. If capital inflow from overseas investors, which had been supporting the Malaysian ringgit exchange market so far, starts to decline, the appreciation of the Malaysian ringgit is likely to slow down.

On the other hand, on May 17, the central bank of Malaysia held its first meeting under the new governor, Muhammad Ibrahim. As had been expected by the majority, the policy interest rate was kept at the existing level. There was no significant change in terms of the current conditions and the future outlook found in the statement. This means that the new governor kept the basic strategy of the former governor, Zeti Akhtar Aziz. Market participants are positive about the stability in the monetary policy management, which may keep the Malaysian ringgit from depreciating.

Furthermore, the crude oil price has recently been stable, which will temporarily support the Malaysian ringgit exchange market. However, while concerns over Chinese economic slowdown persist, it is also difficult for the Malaysian ringgit to continue rallying for the long term. Thus, this factor by itself is not sufficient enough to continue encouraging market participants to buy the Malaysian ringgit for the long term.

As the Malaysian fundamentals have not been strong enough and as capital inflow from overseas investors has been slowing down, market participants find it hard to continue buying the Malaysian ringgit, with the persisting problem of 1MDB. Therefore, the Malaysian ringgit is expected to remain low this month as well.

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

Indonesian Rupiah – June 2016

Expected Ranges	**Against the US$:**	**IDR 13,300–13,800**
	Against 100 rupiah:	**JPY 0.78–0.85**
	Against the yen:	**IDR 117.70–127.70**

1. Review of the Previous Month

In May, the Indonesian rupiah depreciated in the second half the month, and the Indonesian rupiah once reached its low against the U.S. dollar since the first half of February this year at IDR 13,670.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange rate remained within a narrow range at around IDR 13,200. After the consecutive holidays (in Indonesia, May 5 and 6 were national holidays), the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at around IDR 13,300 until the middle of the month.

On May 17, the minutes of the FOMC meeting in the U.S. were released, and the contents turned out to be hawkish. In reaction to this, the U.S. dollar appreciated, while funds flew out from security investment in Indonesia, leading the Indonesian rupiah to depreciate sharply against the U.S. dollar. On May 20, the U.S. dollar/Indonesian rupiah exchange rate fluctuated at the IDR 13,600 level, rising by more than 300 points only in three days.

With regard to economic indices in Indonesia, the April inflation rate (year-on-year) turned out to be +3.6%, declining from the result of the previous month, which was +4.45%. The amount of foreign currency reserves as of the end of April turned out to be USD 107.7 billion, recording a positive increase from the previous month. The April trade balance turned out to be + USD 670 million. Thus, the overall economic indices were not negative. However, the impact of such economic indices on the Indonesian rupiah exchange market was limited, as the Indonesian rupiah has recently been following the trends in monetary policy in the U.S. as well as in security investment.

2. Outlook for This Month:

The Indonesian exchange market is expected to fluctuate violently in June.

As can be observed in the sharp decline in the previous month, the monetary policy in the U.S. and its concomitant outflow of security investment have been important factors on the U.S. dollar/Indonesian rupiah exchange market. Therefore, the Indonesian rupiah market is expected to continue following external factors in the times ahead. Thus, trends in monetary policy in the U.S. will lead the Indonesian rupiah exchange rate to fluctuate in both directions.

However, it should be pointed out that the rating for Indonesia by a major ratings agency, S&P, will also remain a key factor. Among the three major ratings agencies (S&P, Fitch, and Moody's), S&P is the only agency that does not identify Indonesia as investment grade. However, a key official at S&P had a meeting with President Jokowi on May 11 to mention the possibility of an upgrade in the times ahead.

Almost 40% of all Indonesian government bonds have already been held by overseas investors, and even if S&P decides to upgrade Indonesia to investment grade, there may not be a lot of space for further security investment. However, if all three major ratings agencies rate Indonesia as investment grade, it would be the first time that this has happened since the Asian currency crisis of 1997, which would create positive sentiment in the market. Even though it is not known when S&P will revise its rating, according to usual practice, it is likely to be in the middle of this month, which may become a key event before the start of Lebaran (a large festival after the fasting period).

Yasunori Sugiyama, Manila Branch

Philippine Peso – June 2016

Expected Ranges	**Against the US$:**	**PHP 46.50–47.50**
	Against the yen:	**JPY 2.30–2.40**

1. Review of the Previous Month

The U.S. dollar/Philippine peso exchange market opened trading on Monday, May 2 at PHP 46.97. U.S. dollar buybacks dominated the market because of the April employment statistics of the U.S. released during the preceding weekend. Then, the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range thereafter around PHP 47.00 on Monday, May 2 and Tuesday, May 3. The Philippine peso depreciated gradually thereafter, before the presidential election after the weekend. In the evening of May 5, an FRB official made remarks to support an interest rate hike in the U.S., which strengthened the U.S. dollar. Following this trend, the Philippine peso weakened to PHP 47.35 to the U.S. dollar on Friday, May 6. Weekly trading closed at PHP 47.09 as market participants adjusted their positions thereafter.

After Monday, May 9, which was a national holiday in the Philippines for voting for the presidential election, the U.S. dollar/Philippine peso exchange market opened trading at PHP 47.20 on Tuesday, May 10. As the overwhelming victory of Rodrigo Duterte became certain in the presidential election, market participants rapidly bought back the Philippine peso, along with Philippine stocks, which were avoided before in fear of confusion related to the outcome of the election. On Tuesday, May 10, market participants bought the Philippine peso, and the U.S. dollar/Philippine peso exchange rate reached PHP 46.75. Furthermore, the exchange rate reached PHP 46.55 to the U.S. dollar on Wednesday, May 11, the following day, and PHP 46.45 to the U.S. dollar on Thursday, May 12. On Friday, May 13, some market participants bought back the U.S. dollar before the weekend. However, the Philippine peso remained strong, and weekly trading closed at PHP 46.555 to the U.S. dollar.

After the weekend, on Monday, May 16, the U.S. dollar/Philippine peso exchange rate opened trading at PHP 46.64. During the first half of the week, Philippine peso-buying dominated the market as a result of the appreciation of European stock prices and the appreciation of the crude oil price. As a result, on Tuesday, May 17, the Philippine peso appreciated against the U.S. dollar to reach PHP 46.33. However, in the evening of the same day, the April Consumer Price Index (CPI) of the U.S. turned out to be good, and FRB officials made remarks to imply that a decision will be made at the FOMC meeting in June to hike the interest rate in the U.S., which encouraged market participants to buy the U.S. dollar. As a result, the U.S. dollar/Philippine peso exchange rate reached PHP 46.70 on Wednesday, May 18. Then, the minutes of the FOMC meeting were released in the evening of the same day, with hawkish contents, which also led the U.S. dollar to appreciate further, and then the U.S. dollar/Philippine peso exchange rate reached PHP 46.95 on Thursday, May 19. On Friday, May 20, market participants adjusted positions before the weekend, and weekly trading closed at PHP 46.75 to the U.S. dollar.

On Monday, May 23, the U.S. dollar/Philippine peso opened trading at PHP 46.70. Then, FRB officials made another series of remarks to imply that a decision will be made at the FOMC meeting in June to hike the interest rate in the U.S., which strengthened the U.S. dollar. As a result, the U.S. dollar reached its high at PHP 46.92 on Tuesday, May 24. However, the appreciation of the crude oil price and the stability of the global stock market created risk-taking sentiment in the market, which slowed down one-sided emerging currency-selling. As a result, the U.S. dollar/Philippine peso pair was trading at the upper-PHP 46 level. On Friday, May 27, weekly trading closed at PHP 46.64 to the U.S. dollar.

2. Outlook for This Month

In the monetary market of the Philippines, there had been fear of confusion after the presidential election on May 9. However, with the voting rate at nearly 90%, Rodrigo Duterte, the mayor of Davao City, saw an overwhelming victory, obtaining nearly 40% of the total votes. There was therefore no room for objection by opposing parties, and the presidential election was concluded as peacefully as ever seen.

After the presidential election, market participants rapidly bought back the Philippine peso and the Philippine stocks that they had sold before the election, bringing the market to the original level. Even though there had been some concerns regarding Rodrigo Duterte, due to his extreme remarks, as well as his lack of experience in national politics, market participants are currently waiting to see the structure and political disciplines of the new government with mounting expectations.

As the minutes of the FOMC meeting released on May 18 turned out to be hawkish, the U.S. dollar was on an uptrend in the second half of May. As a result, the U.S. dollar/Philippine peso exchange rate remains at the upper-PHP 46 level. However, the January–March quarter GDP of the Philippines was announced on May 19, and the result turned out to be +6.9% year-on-year—stronger than the result of the previous quarter (+6.5% year-on-year). This shows that the Philippines still maintains high economic growth based on personal consumption.

Even though the Philippine peso has currently been on a downward trend due to mounting expectations for an interest rate hike in the U.S., the Philippine economy itself has been extremely robust. Thus, no matter what economic policy is taken by the new government under Rodrigo Duterte, steady economic growth is likely to continue for the time being. Therefore, if the interest rate is raised in the U.S. in June and if expectations for higher future interest rates start to fade, the Philippine peso is likely to start appreciating against the U.S. dollar.

From the medium- to long-term perspective, there are some concerns about objections from opposing parties, if, for example, President Rodrigo Duterte takes extreme measures against political corruption or crime in general, which may cause social confusion. However, many people are feeling positive about their expectations for the new government, which recorded an overwhelming victory. Thus, the public is likely to quietly wait and see how the new government will carry out new measures for the time being.

Tatsuaki Kihara, Asia & Oceania Treasury Department

India Rupee – June 2016

Expected Ranges	**Against the US$:**	**INR 66.50–69.00**
	Against the yen:	**JPY 1.59–1.67**

1. Review of the Previous Month

In May, the Indian rupee depreciated against the U.S. dollar at the beginning of the month due to the growing expectations for an interest rate hike in the U.S. However, toward the end of the month, the market sentiment improved and market participants bought back the Indian rupee.

In the first half of the month, the U.S. dollar/Indian rupee exchange rate remained within a narrow range, at around INR 66.50.

After the Indian market closed on May 12, the April Consumer Price Index (CPI) of India and the March industrial production of India were announced. While the CPI was above the level expected in the market, the industrial production turned out to be +0.1% year-on-year, significantly below the market estimate, which was +2.5% year-on-year. Furthermore, the figure was significantly lower than the result of the previous month, which was +2.0% year-on-year. Both were a negative for the Indian economy. However, the depreciation of the Indian rupee was minimal.

On May 18, local time, in New York, the minutes of the FOMC meeting were released, fueling expectations for an interest rate hike at the upcoming FOMC meeting, scheduled for June 15. As a result, the U.S. dollar appreciated. Following this trend, the Indian rupee depreciated against the U.S. dollar, reaching INR 67.80 on May 24, for the first time in approximately three months since the first part of March this year.

All voting for the state assembly elections carried out from April toward May opened on May 19. However, the impact on the Indian rupee exchange market was limited.

Thereafter, the sentiment improved in the overseas market, and market participants bought Indian stocks. Following this trend, the Indian rupee was bought back against the U.S. dollar, and the U.S. dollar/Indian rupee exchange rate returned to a level near INR 67.

2. Outlook for This Month

In June, the Indian rupee exchange market is forecast to follow speculations regarding the interest rate hike in the U.S.

The FOMC meeting is scheduled for June 15 (local time in New York), and if expectations grow for an interest rate hike, market participants are likely to buy the Indian rupee, as is the case for other currencies of emerging countries.

With regard to domestic factors in India, one can point to the monetary policy meeting of the Reserve Bank of India (RBI) scheduled for June 7. However, as there has been little time since the last interest rate cut in April and as the April CPI of India announced in May turned out to be strong, no change in monetary policy is expected.

The crude oil price has been on the rise, which means a growing trade deficit and a rising inflation rate in India, which is a country that imports crude oil. Therefore, this has been a factor leading the Indian rupee to depreciate, and therefore, market participants would need to carefully watch trends in the crude oil market. Furthermore, the monsoon season is approaching, and this will also impact the inflation rate in India. As the precipitation amount this year is expected to be larger than normal, market participants should also pay attention to news related to monsoons.

The Bharatiya Janata Party (BJP), which is the ruling party in India, does not have a majority of seats in the Upper House, which has been a problem for the government under Narendra Modi in carrying out various reforms. As seat majority is allocated based on indirect voting by the members of the state assembly, the result of the state assembly election would eventually impact the number of seats in the Upper House. However, as this situation would have to wait until the reorganization of the Upper House, any impact from the state assembly election on the number of seats at the Upper House is not expected for the time being. This also means that the reforms by the government under Narendra Modi are also not likely to advance dramatically. The Indian rupee exchange market is therefore expected to continue following external factors and, in particular, trends in the U.S.