Mizuho Dealer’s Eye

July 2016

Mizuho Bank, Ltd.

Forex Department

Takashi Nishitani, Forex Sales, Forex Department

U.S. Dollar – July 2016

Expected Ranges Against the yen: JPY99.00–104.00

1. Review of the Previous Month

The dollar/yen pair fell sharply in June.

It opened the first week trading around 110.70 yen on June 1. At a press conference concerning the decision to postpone the consumption tax hike, Japanese Prime Minister Shinzo Abe gave no specific details about the supplementary budget proposal. This led to a sense of disappointment, with the pair dropping to around 109 yen. Risk sentiments worsened on June 2 after an OPEC meeting failed to reach an agreement on the ceiling of its oil output target. This saw the pair dipping temporarily to the mid-108 yen mark. The U.S. employment data for May was released on June 3. At +38,000 over the preceding month, the data fell significantly below market expectations, with the pair then plummeting to 106 yen.

The second week opened with dollar selling on June 6 in the wake of the bearish results of the U.S. employment data released last week. As a result, the pair fell further to hit the lower-106 yen level for a time. However, it then bounced back to the upper-107 yen mark on firm stock movements. It moved at 107 yen over June 7. Japan's 2nd preliminary GDP result for January–March was released on June 8. It was revised upwards from the 1st preliminary result, so the pair dropped to the upper-106 yen level as expectations for further easing by the Bank of Japan (BOJ) dropped off. It moved with a heavy topside at the upper-106 yen mark in the latter half of the week on growing concerns that the UK would leave the EU (Brexit).

The pair moved flatly over the first half of the following week in advance of the meetings of the FOMC and the BOJ's Monetary Policy Committee (MPC), but it then fell to the mid-105 yen level on June 15 after the FOMC announced that its federal funds rate projections (the dot chart) had been downgraded. The BOJ's MPC kept monetary policy unchanged when it met on June 16. This was broadly as expected, but there had been some expectations for further easing, so a sense of disappointment saw the pair crashing to the mid-104 yen range while activating stop losses. BOJ Governor Haruhiko Kuroda's press conference also contained nothing particularly new, so the pair then slid to the mid-103 yen level. Thereafter, though, Jo Cox, a member of the UK parliament, was shot dead during overseas trading. Mrs. Cox has been a backer of the campaign to stay in the EU, so the shooting prompted speculation that the remain camp would gain support. As a result, the pair rallied to the mid-104 yen range.

It fluctuated gently the next week in the run up to the UK referendum, though it strengthened to around 106 yen on a steadily growing sense that the remain camp would win. The same momentum continued on the day of the referendum, with the pair rising further to hit 106.87 yen for a time. As the results started to come in, though, it became clear that the leave camp had won in more areas than expected. As the pound plummeted, the dollar/yen pair also fell sharply. When a victory for the leave camp grew more likely, the pair fell temporarily to 99 yen.

Risk aversion flared up excessively in the wake of the referendum, but this trend was wound back in the fifth week and the pair underwent a gentle recovery to hit 103 yen for a time.

2. Outlook for This Month:

The dollar/yen pair is expected to trade with a heavy topside in July.

Risk sentiments have worsened across the markets in the wake of the results of the UK referendum last month, so we will probably not see the return of any active risk-taking for a while. As reported in various quarters, the EU has asked the UK to trigger Article 50 (thus giving notification of its intention to leave the EU) as soon as possible, but if the UK does trigger Article 50, the UK’s membership of the EU will automatically come to an end in two years, so there is speculation the UK will try to delay such a move as long as possible. The Conservative Party will also be electing a new leader on September 9, while the EU Heads of State will be meeting on September 16, for example. This schedule also suggests the divide between the EU and UK is unlikely to be filled any time soon, so the situation will remain up in the air. There are a number of other negative factors too. These include the issue of Scottish independence, for instance, while the UK’s credit rating has downgraded by the major ratings agencies, as have the ratings of European banks. As a result, it is hard to imagine risk sentiments improving any time soon.

Expectations for a U.S. rate hike have also fallen sharply on these risks, with the markets now not forecasting even one more hike this year. Dollar/yen long positions have built up on the back of expectations for U.S. rate hikes, but with some observers also suggesting that the FRB’s next move will be in the direction of a rate cut, not a rate hike, it is hard to imagine this trend continuing from here on. Furthermore, even though the yen is rising sharply at present, U.S. government officials continue to describe the currency markets as ‘orderly,’ so most observers believe the Japanese authorities will find it hard to carry out yen-selling interventions. The next time market participants try pushing the pair below 100 yen, there is a risk the pair could undergo a sustained slide if a feeling grows that the authorities are not willing to intervene even during a sharp fall.

As for bearish yen factors, the first to consider would be further easing by the BOJ. Some observers do indeed believe the BOJ’s MPC will introduce some easing measures when it meets at the end of July, but with the BOJ lacking any strong easing cards, there is a strong sense such a move would come to naught. Another potential bearish scenario would be if the government announces a supplementary budget that is larger than expected, with the currency pair subsequently rising in tandem with a bullish Nikkei Stock Average, but various reports suggest nothing concrete has been decided yet.

Around 103 yen represents a 50% retracement from the pair’s level before the referendum to its recent low of 99 yen, so the pair seems to be at an appropriate level right now as the phase of excessive risk aversion comes under some unwinding. July and August are also months when the markets gradually slip into summer holiday mode, so it is hard to see the pair breaking sharply above 103 yen. On the whole, market participants should expect the pair to trade with a heavy topside while remaining alert to any moves on the downside.

Dealers' Market Forecast

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

Bullish on the dollar (5 bulls: 99.00–107.00, Core: 100.00–106.00)

Fujisaki	99.00 – 107.00	The speculative yen long positions that have accumulated in the wake of Brexit will probably be unwound this month. Other factors that could prompt a rally include: bullish Japanese demand for direct investment and foreign securities; and potential policy mobilization in the run up to the upper house elections in Japan.
Kato	100.00 – 106.00	This month will see some adjustment to the dollar short positions that have built up on the back of Brexit. A number of markets have seen selling, but when thinking about selling on a rally, it might be wise to consider that short-term speculative positions are inclining in the direction of short positions.
Yano	100.00 – 106.00	If U.S. economic indicators pick up and speculation swirls about further easing by the BOJ, then the dollar/yen pair is likely to bounce back gently from the losses incurred after the Brexit vote. However, there could be some hedge selling by exporters and so on during this rally, so the pair's rebound is likely to be modest in nature.
Sato	100.00 – 106.00	The excessive pessimism that greeted the result of the UK referendum is easing off and the dollar/yen pair will probably attempt a comeback in July. However, there is likely to be speculation that the FRB will want to monitor the impact of the result on the U.S. economy, so a rate hike within the year looks unlikely. With the summer holidays also looming, the pair's topside will also be capped.
Omi	99.00 – 104.00	The dollar/yen pair is likely to move firmly, with its post-Brexit low of 99.00 yen working as a support line. Amid a recovery in risk sentiments and a shortage of factors while with expectations for more rate hikes this year, the dollar is unlikely to fall further. Furthermore, the pair tends to fluctuate within a narrow range over the summer season, with the markets unlikely to see any major movements until late August this year too.

Bearish on the dollar (6 bears: 97.00–105.00, Core: 98.00–104.75)

Yamashita	97.00 – 104.00	The sentiments of manufacturers and other U.S. companies are improving on dollar bearishness. With the markets also moving unstably on the back of the Brexit vote, there seems to be zero possibility of a U.S. rate hike this month. Even if the BOJ eases further, this will only give the dollar/yen pair a temporary boost, with the pair continuing to trend lower on the whole.
Takada	98.00 – 105.00	Though the shock of the Brexit vote is cooling off, market risk sentiments are unlikely to improve on the whole, so the dollar/yen pair will probably trade with a heavy topside. The theme of the markets will probably return to U.S. monetary policy. A U.S. presidential election is looming in autumn, though, so even if the U.S. posts some bullish economic indicators, the market reaction will probably be muted.
Nishijima	98.00 – 104.50	After dropping off sharply, the momentum behind further U.S. rate hikes weakened further following the Brexit vote, so there is a danger there might not even be one more hike this year. There is a risk the Brexit vote could give fresh impetus to Donald Trump's campaign. The BOJ may implement some further easing this month, but there are doubts about whether such a move would still translate automatically into bullish stocks and a bearish yen. Under these circumstances, it is hard to imagine the dollar/yen pair rising.
Shimoyama	98.00 – 105.00	Expectations for a U.S. rate hike within the year have fallen sharply in the wake of the Brexit vote, so any expectations for dollar bullishness will be muted in nature. There is speculation about further BOJ easing, but even if the BOJ does make such a move, the pair's topside will probably be capped strongly by moves from Japanese exporters to convert funds into yen. The pair is expected to continue trending downward.
Nishitani	99.00 – 104.00	There will probably be a shortage of factors conducive to dollar buying/yen selling for the time being due to: the uncertainty about Brexit; declining expectations for U.S. rate hikes; and the view that the BOJ's MPC is unlikely to introduce more easing when it meets this month. It is also hard to imagine the authorities intervening to sell the yen, so on the whole market participants should expect the dollar/yen pair to move with a heavy topside, though they should remain alert to the risk of a crash.
Moriya	98.00 – 105.00	Expectations for a U.S. rate hike within the year have dropped off sharply. Even if the U.S. posts some bullish economic indicators, with uncertainty lingering over the Brexit issue, expectations for a rate hike are unlikely to rise. Though the BOJ may implement some more easing, there seems to be strong appetite for sell-backs during phases of yen bearishness,

		so the dollar/yen pair's room on the topside will probably be capped.

Michiyoshi Kato, Forex Sales, Forex Department

Euro – July 2016

Expected Ranges **Against the US$: US$1.0800–1.1300**
Against the yen: JPY110.00–117.50

1. Review of the Previous Month

In June the euro underwent some comparatively large fluctuations against the dollar before returning to its level from the start of the month. On the other hand, it moved with a heavy topside and weakened against the yen.

The euro/dollar pair headed toward June trading at the lower-$1.11 mark. As broadly expected, the ECB Governing Council decided to keep monetary policy unchanged when it met on June 2, but its inflation report was slightly weaker than the markets had been expecting, so the pair began the month moving bearishly. However, the dollar was then sold after the U.S. employment data for May fell significantly below expectations, with the pair subsequently soaring to the upper-$1.13 level. With expectations for a U.S. rate hike dropping off sharply, risk sentiments deteriorated. The cross yen in particular was hit by this deterioration, with the euro/yen pair's topside growing heavier from the start of June. After heading into June around the 124 yen mark, the pair now underwent a one-sided slide. The euro/dollar pair hit $1.14 in the second week on the back of the firm movements of European stocks and crude oil prices, but it was pushed back to the $1.11 level after bond yields fell in the wake of a comment by ECB President Mario Draghi that the inflation rate would not be left at a below-target level, with the pair also hit by growing fears about a British exit from the eurozone (Brexit).

The euro/dollar pair hit a monthly high of $1.1429 after risk aversion eased off when polling companies initially suggested the remain camp would probably win the closely-watched Brexit referendum, but when the vote counting actually began, news came in that the leave camp had done better than expected in certain areas. The optimism that had prevailed from the morning onward now began to dissipate and the pair began moving erratically on various reports. When it finally seemed the leave camp would win, the pound was sold. This saw the dollar/yen pair dropping to 99 yen, with the euro/dollar pair also being sold to a monthly low of $1.0912. During this time, the euro/yen pair continued its one-sided fall and was sold to 109.30 yen.

Though the dollar/yen pair then rallied to around $1.12 on position adjustments, the results of the UK referendum continued to reverberate, with the pound sold heavily in the Sydney market on June 27. As such, market participants continued to hold back from any active trading. Rather than building up new positions as risk tolerance levels improved, at the end of the week investors focused on adjusting the positions they had built up in advance of the Brexit vote. In the end, the euro/dollar pair approached the end of the quarter fluctuating gently without a sense of direction around $1.11, the same level as the start of June.

2. Outlook for This Month:

In July, the euro will probably continue to have its downside tested against the dollar and yen.

In the wake of the UK referendum result, it is quite possible that concerns about the EU's future (namely that the EU might split) could flare up. Of course, the only thing the recent referendum really clarified was that 'at this moment in time, a majority of British citizens want to leave the EU.' The result was not legally binding and a glance at the procedures suggests it will take a least two years for the UK to leave. At present, the risk of a Lehman-Shock-style credit crunch is not growing and there is a sense that market participants may be getting a little too stressed about the issue. As a result, if the markets regain some composure, risk sentiments may recover. However, since the euro's launch, people have continued to point to weaknesses on the financial front. If the results of the UK referendum are seen as a symbolic blow to the EU, the issue of an EU breakaway could well erupt in another country. This is the first time a country has gone through the withdrawal process since the European Community was founded. There will undoubtedly be some turmoil. For Europe, a continent that has strived towards integration, this is the first time one of its inherent risks has burst out into the light of day. For the remaining countries, this is more likely to be a test of political rather than economic unity.

On the other hand, paradoxically, it is possible that the EU may look at the situation in the UK and decide to draw closer together. Once it leaves, it is not hard to imagine the UK being treated unfavorably on the economic front by the remaining EU countries. If it is possible for EU countries to become more unified, then the UK exit might also provide an opportunity for the EU nations to draw closer together politically. Furthermore, if it becomes possible for countries to leave the EU, then it is will also be possible for the EU to get rid of any deadweight countries, so from a long-term perspective, this might not necessarily be a bad thing for the euro. As long as countries like Germany, France and Spain remain, then even if some of the comparatively-smaller countries follow the UK out of the door, it is doubtful whether this would spell the collapse of the EU. As a result, over the long term, it is still possible the euro could become a strong currency. In the short term, though, the euro is likely to have its downside tested this month as the repercussions from the UK turmoil continue to reverberate. Events to watch out for this month include the release of the June U.S. employment data (July 8), the ECB Governing Council meeting, and ECB President Mario Draghi's subsequent press conference (both July 21).

Dealers' Market Forecast

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

Bullish on the euro (2 bulls: 1.0900–1.1450, Core: 1.0925–1.1425)

Omi	1.0950 – 1.1450	The euro/dollar pair fell on the Brexit turmoil. It is expected to recover steadily this month as risk sentiments improve. With no major swing back likely over summer, the pair will gradually converge within a range around $1.1100–1.1300 as market turmoil calms down.
Nishitani	1.0900 – 1.1400	Though there are still uncertainties related to Brexit, discussions about the UK leaving the EU may have to wait until September, so the euro/dollar pair is likely to remain deadlocked for the time being. With expectations for a U.S. rate hike falling sharply, there is not much appetite for dollar buying across the markets as a whole, so the euro will probably move firmly.

Bearish on the euro (9 bears: 1.0500–1.1300, Core: 1.0700–1.1300)

Fujisaki	1.0500 – 1.1300	The euro will probably be sold on uncertainty about the Brexit issue together, with the single currency also likely to be buffeted as the markets price in the possibility of an EU break-up. Attention should also be paid to the U.S. employment data, which had previously led to a fall in expectations for a U.S. rate hike. If the U.S. releases some bullish figures, this is likely to spur on dollar buy-backs.
Kato	1.0800 – 1.1300	Brexit is a major political headache for the eurozone. Though it probably will not lead directly to a credit crunch, this is undoubtedly the biggest historical event since the launch of the euro and the reverberations will continue to echo for a while.
Yamashita	1.0500 – 1.1300	All we have heard about is how bad Brexit will be for the UK, but the UK also pays a lot of money into the EU, so the loss of the UK will also hit the EU hard. Concerns about Greece are also flaring up again and it will be difficult for Germany to carry the EU all on its own. Euro-buying factors will be short on the ground.
Yano	1.0800 – 1.1300	Though the euro/dollar pair has recovered for a time from its post-Brexit funk, there are growing concerns about Europe's economy and the possibility that the ECB might be pushed into easing further, so the euro will probably trade with a heavy topside.
Takada	1.0700 – 1.1300	The turmoil that hit the markets after Brexit is currently calming down, but the ECB may well ease further from here on, so from here on, the euro will trade with a heavy topside whenever high-ranking figures drop hints about such a move.
Sato	1.0800 – 1.1300	With uncertainty smoldering away in the wake of the Brexit vote, expectations for further ECB easing will grow on bearish economic indicators. There is a shortage of factors that could prompt some active euro buying, so the single currency is expected to move with a heavy topside.
Nishijima	1.0700 – 1.1300	The euro will try to rally at times as the panic movements that greeted the Brexit vote come to a halt and unwind. Though the market turmoil has not been bad enough to ruffle the ECB, the Brexit issue will continue to weigh down the euro, with the single currency expected to gradually face more selling pressure.
Shimoyama	1.0700 – 1.1300	The Brexit shockwaves may ease off for a time, but in the end expectations for further ECB easing will inevitably rise. The pound's topside will be capped and the euro's topside will also grow heavier as a result, with the single currency expected to edge lower.
Moriya	1.0800 – 1.1300	The markets moved wildly after the Brexit vote. Though things are calming down now, it is still unclear what impact the vote will have on the EU. Expectations for further easing are expected to gradually edge up from here on, with the euro's topside likely to edge lower.

Yuta Yada, Europe Treasury Department

British Pound – July 2016

Expected Ranges	**Against the US$:**	**US$1.2600–1.3800**
	Against the yen:	**JPY130.00–142.00**

1. Review of the Previous Month

The pound fell sharply in June on the vote to leave the EU.

Sterling swung to and fro until the results of the referendum became clear.

Up until mid-June, opinion polls suggested the leave camp was winning the Brexit debate, with the pound falling accordingly. Risk-off sentiments prevailed at this time on concerns about a global economic recession in the event of a Brexit vote, with risk assets being sold off. The yen was bought on risk aversion. With expectations also falling after the Bank of Japan (BOJ) decided not to ease further, the pound fell to its lowest level against the yen since April 2013, some three years ago. Sterling also moved with a heavy topside against the dollar. When the U.S. employment data for May was released on Friday, June 3, it revealed that nonfarm payrolls had only risen by 38,000, significantly down on market expectations for a rise in the region of 160,000. As expectations for a U.S. rate hike swooned, the dollar moved bearishly against the pound, though the impact of all this was short-lived and limited. During this time, yields on UK government bonds kept falling and the pound was sold when the yield on 10-year gilts renewed a historical low. On Thursday, June 16, though, the market mood changed when Jo Cox, a Labour member of parliament, was shot dead. Mrs. Cox was a supporter of the remain camp and opinion polls pointed to a surge in sympathy votes for the remain cause. Risk assets were bought back as a result, with the pound also bouncing back. This trend continued up until the eve of the referendum, while a YouGov poll published directly after the polls closed suggested the remain camp would win. All this saw the pound/dollar pair rallying to $1.50, a high for the year.

When the final results became clear though, sterling faced selling pressure and the markets moved erratically.

As the results came in from each region from Thursday, June 23 to Friday, June 24, it gradually became clearer that the leave camp was in the driving seat. When the results from Edinburgh and Birmingham (both areas with many voters) came in just before 4 am, the defeat of the remain camp was confirmed, with the pound/dollar pair subsequently falling to $1.3228 for a time. This represented a 31-year low (last seen in September 1985). Sterling also fell sharply against the euro and yen. It hit GBP0.8318 (last seen in March 2014) against the former and 133.25 yen (last seen in December 2012) against the latter. Once the victory of the leave camp was confirmed, Prime Minister David Cameron announced his resignation. Amid serious political and economic uncertainty, speculation grew toward the end of the month that the Bank of England (BOE) would soon implement a rate cut. With yields on

5-year gilts falling to record lows on June 26, the pound fell further the following day. After dropping sharply, though, the pound recovered slightly toward the end of the month as it staged an independent, buying-led rally.

2. Outlook for This Month:

The pound is expected to trade with a heavy topside in July. Sterling will probably face more room on the downside as uncertainty grows following the results of the Brexit decision.

The key points will be: (1) the progress of negotiations between the UK and EU; (2) the BOE's policy response; and (3) the possibility of a coordinated intervention.

About point 1, a useful reference when considering the direction and process of negotiations is a document released by VoteLeave (the official leave campaign) before the referendum on June 15. This sets out the process following a Brexit vote. VoteLeave's roadmap states that European Union law would be kept in place until May 2017. It goes on to say that 'it makes no sense to trigger Article 50 immediately after the 23 June vote and before extensive preliminary discussions,' while a formal declaration to leave the single market 'would restore the UK Government's power to control its own trade policy.'

However, the policy of the UK parliament still unclear. A member of the Conservative Party will also need to take over the reins from Mr. Cameron and represent the UK in negotiations with the EU. This person faces a difficult task. It is likely that negotiations will continue to be kicked into the long grass for at least three months, until the Tories choose the next prime minister in September.

As for point 2, there is a sense of uncertainty about the direction of the economy following Brexit. There are concerns about the shrinkage of the size of the economy due to companies leaving the UK, for example, or about a labor shortage as the number of immigrants fall. However, as the leave camp has insisted, is it very unlikely that economic indicators will worsen immediately. As a result, there is not much reason for thinking the BOE will ease further through an expansion of quantitative easing or rate cuts, for example, so it is hard to imagine the BOE moving beyond the maintenance of its current accommodative monetary stance. What does need to be monitored more closely is the possibility that UK inflation might rise as import prices jump on a bearish pound. If this happens, the BOE will find itself stuck in a very difficult place, namely between a worsening economy and rising inflation. Turning to point 3, and the Statement of G-7 Finance Ministers and Central Bank Governors (released Friday, June 24) limited itself to stating that 'excessive volatility and disorderly movements in exchange rates can have adverse implications for economic and financial stability,' so it is unlikely that the G7 will actively intervene to counteract the pound's current bearishness, which is not unexpected.

UK economic indicators set for release this month include the April manufacturing and industrial production figures (released July 8), the May CPI data (July 14), the February–April average wages data (July 15) and the May retail sales figures (July 16). However, these are unlikely to have much of an impact until sterling regains some composure.

Miki Yamaguchi, Sydney Branch

Australian Dollar – July 2016

Expected Ranges	Against the US$:	US$0.7280–0.7700
	Against the yen:	JPY72.08–79.00

1. Review of the Previous Month

The Australian dollar swung to and fro in June.

It began the month trading at the lower-USD0.72 mark on June 1. When the U.S. employment data for May was released on June 3, it revealed that nonfarm payrolls had only risen by 38,000, significantly down on market expectations for a rise in the region of 160,000. The U.S. dollar was sold and the Australian dollar was bought as a result. The Australian unit gained to the upper-USD0.73 mark. The board of Reserve Bank of Australia (RBA) decided to keep the cash rate fixed at 1.75% when it met on June 7. It also provided no hints about the possibility of further easing. As a result, the unit then rose to the mid-USD0.74 level. With the FOMC meeting looming, the markets switched into wait-and-see mode, but the Australian dollar nonetheless edged down to USD0.73. The federal funds rate projections of FOMC members were released on June 15, with more members now expecting only one more rate hike within 2016, for example, and many members expecting rates to be lifted at a slower pace over 2017/18. This downgrade saw the Australian unit edging up to the lower-USD0.74 mark. The Australian dollar fell sharply against the yen on June 16 when the Bank of Japan (BOJ) held off from easing further, with the unit also dragged lower against the greenback to plunge below USD0.73 for a time. This selling was short-lived, though, and it soon returned to the upper-USD0.73 level.

It continued to hover around USD0.74 mid-June as the markets slipped into wait-and-see mode in advance of the UK Brexit vote on June 23. With the bookmakers pointing to a victory for the remain camp, the Australian dollar strengthened to the USD0.76 range on June 23. In the early hours of June 24, a YouGov poll of 5,000 people who had voted suggested the remain camp was in the lead. This saw the Australian unit hitting a monthly high of USD0.7650. With the two camps battling it out thereafter, the unit weakened. Around noon, it seemed the leave camp was in the driving seat. As a result, the unit plunged temporarily to USD0.7305. With the leave camp eventually winning and the financial markets moving stormily, the unit swung up and down between USD0.73–0.75 before ending the month at the USD0.74 mark.

2. Outlook for This Month:

With the world watching, the leave camp narrowly won the UK Brexit referendum. Moves to price in a remain vote were seen directly before and after the vote, so the result certainly came as a shock to the markets. Depending on how the market develops from here on, central banks may move to provide liquidity, intervene emphatically in the currency markets, or dabble in monetary easing, so market participants should be on guard against volatile trading.

Under these circumstances, the first thing attracting attention this month will be whether the statement released after the RBA board meeting on Tuesday, July 5 drops any hints about further easing. The RBA surprised the markets somewhat in May by cutting the cash rate to a historically low 1.75%. It said the move was down to lower-than-expected inflation. Though this month's board meeting will take place after the Brexit earthquake, the RBA will probably want to made a decision about further easing after monitoring the ripple effect of the last rate cut or the results of the Australian CPI data for April–June (released on Wednesday, July 27). In particular, the core inflation rate (= (trimmed mean + weighted median) ÷2) is an indicator that the RBA monitors closely when implementing policy, so investors will be watching to see whether it drops below the RBA's inflation target (of +2–3%). If it does, the RBA board may cut rates when it meets in August. At the moment, the Australian short-term interest rate futures market is pricing in a 12% chance of such a move in July and a 54% chance in August.

The next focus of attention will be the FOMC meeting on July 26–27. In her press conference after the June FOMC meeting, FRB Chair Janet Yellen said Brexit concerns were behind the committee's decision not to lift rates. Brexit has now become a reality, so with the FRB focusing on the global economy as well as the U.S. economy, it will find it increasingly harder to lift rates. There will no press conference by Yellen after this month's FOMC meeting, nor will FOMC members be releasing their projections for the economy and policy rates. The only thing to focus on will be the FOMC's statement, but this will nonetheless provide important clues to the direction of FRB monetary policy from here on. The U.S. short-term interest rate futures market is pricing in 0% chance of a rate hike in September and just a 9% chance of such a move in December; in fact, the market has priced in a 6% chance of a rate cut in September.

With the RBA board expected to hold off from further easing in July, the Australian dollar will be susceptible to buy-backs. At the same time, as an FRB rate hike looks more unlikely, the greenback will be susceptible to selling. It seems the Australian dollar may move somewhat firmly in July. However, market participants should be wary of systemic risk brought about by the post-Brexit liquidity crunch and the downgrading on the credit ratings of several European banks. During these times, the Australian dollar could plummet on risk aversion.

Australian indicators to watch out for this month include the May trade balance, the May retail sales figures and the RBA board meeting (all July 5); the June employment data (released July 14); the release of the minutes to the July RBA board meeting (July 19); and the CPI data for April–June (July 27).

Katsuhiko Takahashi, Americas Treasury Department

Canadian Dollar – July 2016

Expected Ranges	**Against the US$:**	**C$1.2640–1.3020**
	Against the yen:	**JPY78.80–82.25**

1. Review of the Previous Month

The USD/CAD pair tested the C$1.31 mark at the start of June. The U.S. employment data for May was released during this time. The nonfarm payrolls data fell significantly below forecasts and this saw expectations for a U.S. rate hike dropping off sharply, with the greenback sold and the currency pair sliding to C$1.29. With crude oil prices moving firmly, the Canadian dollar was then bought, with the pair dropping to the mid-C$1.26 level. The Canadian employment data for May was released on June 10. With the unemployment rate dropping to 6.9%, the pair fell from mid-C$1.27 to C$1.2691 for a time, but it was bought back at C$1.26 on strong appetite for U.S.-dollar buying.

Risk aversion intensified mid-June on the looming Brexit referendum. As stock markets and commodity prices both fell, the pair climbed again to around C$1.31. The pair faced more selling pressure at this level, though, and with news emerging that bookmakers and UK opinion polls were predicting a victory for the remain camp in the UK referendum, the pair weakened to C$1.27.

In the end, the result confounded the expectations of most market participants, with the leave camp winning by 51.8% to 48.2%. This saw the currency pair surging on risk aversion. With investors buying up safe assets such as U.S. treasuries, the yen and gold, commodity markets and emerging currencies both fell, with the USD/CAD pair rising to C$1.3120 again. As seen in the previous few weeks, though, there was strong appetite for selling at the C$1.31 range, so there were no active attempts on the pair's topside.

Toward the end of the month, some observers began to predict that the impact of the Brexit vote would mainly be felt in the political sphere, with the economy and financial markets not being hit as hard as originally thought. As risk sentiments improved, the currency pair fell. Furthermore, market interest in Brexit waned on a sense of uncertainty about how the unprecedented leaving process and numerous other issues, such as the timeframe of the procedural process. With the UK FTSE 100 returning to its pre-Brexit level, the USD/CAD pair fell to around mid-C$1.29.

The Canadian GDP data for April was released on June 30. At +0.1% month-on-month, GDP returned to positive territories, though the impact on the markets was muted. With crude oil prices (WTI) moving bearishly thereafter, the currency pair rose to C$1.3010, though it traded with a heavy topside at the month's end as the U.S. dollar was sold and the Canadian dollar bought. In the afternoon, Mexico's central bank lifted the overnight rate (its policy rate) by 50bp. With the Mexican peso (another commodity currency) rising sharply against the U.S. dollar, the USD/CAD pair was also dragged down to C$1.2915 before finishing the month trading at C$1.2927.

2. Outlook for This Month:

The Brexit vote will also have an economic impact, but amid concerns about growing political uncertainty in Europe, risk aversion intensified, so in the short term funds continued to pour from risk assets to safe assets. However, Brexit has not led to the kind of disequilibrium we saw in the financial markets at the time of the Lehman Shock, so while the political implications of Brexit are huge, it is unlikely to cause the collapse of the financial system. Market participants will need make a cool-headed assessment of the situation and monitor the extent to which Canadian dollar is impacted by the eurozone's worsening economic situation. It seems a formal application by the UK to leave the EU will have to wait until around October, when Prime Minister David Cameron steps down.

Furthermore, former London mayor and leader of the leave camp Boris Johnson has announced he will not be running for the top job, and there are worries about who be chosen as the next prime minister. Depending on who is selected, the Brexit negotiations and conditions could change, which also adds to the uncertainty.

In a speech on June 30, St. Louis FRB President James Bullard struck a hawkish tone, saying that the impact of Brexit would be limited, but at the last FOMC meeting, FRB Chair Janet Yellen gave the UK referendum as one of the reasons why the FRB did not lift rates. In fact, attention will be focused on the next FOMC statement to see what impact the leave victory has on the economic outlook. Given the Brexit uncertainty, though, even if the U.S. does release some bullish economic indicators in the run up to the FOMC, this is unlikely to lead to a rate hike.

Economic indicators to watch include the June U.S. nonfarm payrolls result, the June Canadian unemployment rate and the June Canadian CPI data. With Brexit risk easing off and risk sentiments improving, if expectations swell for an FOMC rate hike delay or further easing by the Bank of Japan, then there is enough reason to believe that the Canadian dollar could appreciate on an increase in investor risk taking. Though market participants should remain on guard for any sudden falls in commodity prices, the Canadian dollar is expected to move firmly. Even if the USD/CAD pair rises, though, it is unlikely to break above C$1.31.

Shimon Yoshida, Seoul Treasury Office

Korean Won – July 2016

Expected Ranges	**Against the US$:**	**KRW1,130–1,230**
	Against the yen:	**JPY8.79–9.20 (KRW100)**
		(KRW10.80–11.80)

1. Review of the Previous Month

The USD/KRW pair fell in June.

It weakened at the start of the month on the release of some bearish U.S. economic indicators. It opened trading on June 1 at KRW1190.0, down 0.7 won on the end of May, though it then hit a monthly high of KRW1195.6. However, the pair then moved with a heavy topside on the impending release of the U.S. employment data for May together with concerns about a dollar-selling intervention by the authorities. The U.S. May employment data was released on June 3 and it fell sharply below market expectations, with the pair subsequently crashing to KRW1160 on June 6, the next trading day. The pair was also weighed down by the firm results of China's May trade balance and it continued to move with a heavy topside thereafter.

It rose mid-June as attention focused on the monetary policies of each country. At its Monetary Policy Committee (MPC) meeting on June 9, the Bank of Korea (BOK) surprised the markets by cutting its policy rate by 25bp to a record low of 1.25%. The currency pair began edging up on this rate cut, the first one in a year. The FOMC decided to keep policy unchanged when it met on June 16, with the meeting adjudged to be dovish on the whole. The dollar/yen pair then crashed when the Bank of Japan's MPC decided to keep monetary policy fixed on June 17. However, none of these events had a particularly big impact on the USD/KRW pair, with attention now shifting to the Brexit referendum.

The pair swung to and fro at the month's end. With opinion polls pointing to a victory for the remain camp in the UK referendum, risk aversion eased off and the currency pair moved with a heavy topside. It fell to a monthly low of KRW1147.1 directly after trading opened on June 24, after vote counting had begun. As the counting went on, though, it seemed the leave camp would unexpectedly win, with Asian currencies now being sold as a result. The USD/KRW pair shot up by 29.7 won compared to the previous day. Thereafter, despite a strong sense of uncertainty about the direction of the Brexit issue, concerns eased off somewhat. With the won also seeing some real-demand buying at the end of the month, the currency pair weakened. In the end it closed June at KRW1151.8, down 39.9 won compared to the end of May.

2. Outlook for This Month:

Though expectations for a U.S. rate hike have fallen sharply, there is a strong sense of uncertainty about the direction of the Brexit issue, so the won is unlikely to climb higher in July and the USD/KRW pair is expected to move firmly.

Expectations for a U.S. rate hike fell sharply in June on the bearish results of the U.S. employment data for May. The greenback slid across the globe after nonfarm payrolls rose by only 38,000, substantially below market forecasts for a rise in the region of 160,000. The dollar was also weighed down by the June 15 FOMC meeting, where the number of members supporting just one more rate hike this year rose from one to six. As such, it seems the factors that had supported dollar bullishness up until last month have now dropped off sharply.

However, the focus of the markets has now shifted to the uncertainty about the direction of the Brexit issue. Contrary to expectations, the leave camp beat the remain camp by 52% to 48%. This confirmed that the UK would be leaving the EU, but the situation is still very unclear and no concrete decisions have been made yet on how to shift Britain to the exit. Under these circumstances, uncertainty about the political and economic future of Europe is likely to linger for a prolonged period and this will probably support the USD/KRW pair.

Market participants should also keep an eye on the BOK's stance when it comes to further easing. The June rate cut was a surprise, but the markets had to some extent factored in a rate cut at some point. The South Korean government announced a KRW20-trillion fiscal stimulus plan on June 28, but if the economy does not show clear signs of a recovery, the BOK may well cut rates again.

Geopolitical risk in relation to North Korea will still need monitoring too. 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 this month.

Junji Tsujino, Taipei Treasury Office

New Taiwan Dollar – July 2016

Expected Ranges	**Against the US$:**	**NT$32.00–33.00**
	Against the yen:	**JPY3.01–3.24**

1. Review of the Previous Month

In June, the USD/TWD pair swung in the direction of Taiwan-dollar bullishness as expectations for an early U.S. rate hike declined on the bearish results of the U.S. employment data for May. The Taiwan unit weakened for a time on the UK decision to leave the EU (Brexit), but as market sentiments recovered, the unit was bought back and it ended the month up on the U.S. dollar compared to the end of May.

The pair opened the month at the lower-TWD32.60 mark. It swung to and fro around TWD32.60 over June 1–3 in advance of the release of the U.S. employment data for May. The data was released on June 3 and it fell significantly below market expectations. As a result, the USD/TWD pair fell to TWD32.20 directly after start of trading on Saturday, June 4, a substitute business day. Though things cooled off thereafter, the pair hit TWD32.40. In a speech on June 6, FRB Chair Janet Yellen seemed to step back from the prospect of rate hikes, with the greenback moving bearishly as a result. With Taiwanese stock markets also seeing more buying-on-balance by overseas investors, the pair dropped to the lower-32.20 level on June 7. Taiwan's stock markets saw yet more buying-on-balance by overseas investors on June 8, with the pair dropping to around TWD32.30. The markets were on holiday over June 9–10.

The Bank of Korea lowered its policy rate on June 10. The greenback also rose on growing concerns about a Brexit in the wake of several opinion polls. All this saw the currency pair strengthening to TWD32.40 on June 13. The U.S. dollar rose higher on June 15 on Brexit fears, with the pair temporarily rising to around TWD32.50, but it then dropped back to TWD32.30 as the greenback fell and the yen soared on the June 15 FOMC meeting and the June 16 meeting of the Bank of Japan's Monetary Policy Committee (MPC).

The U.S. dollar weakened and Asian currencies grew stronger from June 20 as opinion polls pointed to a victory for the remain camp in the UK referendum, with the USD/TWD pair falling from around TWD32.25 on June 20 to the lower-TWD32.20 mark on June 22 and the upper-TWD32.10 level on June 23. However, as the votes were counted on June 24, it seemed the leave camp had won the Brexit vote. As a result, the currency pair gained to the TWD32.40 mark. The Taiwan unit continued to move bearishly on June 27 in tandem with the South Korean won and the RMB, with the USD/TWD pair trading at TWD32.50. As market sentiments recovered from June 28, though, the Taiwan unit rallied and the currency pair fell from TWD32.40 on June 28 to TWD32.30 on June 29 and the upper-TWD32.20 mark on June 30.

2. Outlook for This Month:

The Taiwan dollar is expected to move bearishly against the U.S. dollar in July.

Turning to Taiwan's economic indicators, and though the export orders data was unimpressive, it still beat market expectations to rise on the previous month. A buoyant semiconductor industry also saw the industrial production data defying market expectations to rise on the previous year. Production was boosted in advance of the electrical-products sales season from autumn onwards, but the financial markets were hit by the Brexit vote and it is uncertain how much this turmoil will impact Taiwan, so there is no room for optimism yet.

When the movements of the Taiwan dollar around the time of the Brexit referendum are viewed alongside those of the South Korean won and the RMB, this points to a strong correlation, though each currency fluctuated by different amounts. A 1% shift in the value of the Taiwan dollar corresponds to similar shifts of around 3% and just under 1% for the won and the RMB, respectively. As such, it seems the Taiwan unit has been moving as one of a bunch of East Asian currencies, without undergoing any specific movements of its own. Amid lingering uncertainty about how the Brexit situation will develop from here on, if the financial markets remain unstable, the Taiwan dollar is likely to move bearishly too.

Of course, if the direction of U.S. monetary policy shifts from rate hikes to rate cuts, this will probably see the U.S. dollar weakening and the Taiwan dollar strengthening. However, a glance back at the Lehman Shock shows the Taiwanese unit undergoing a one-sided slide for around six months after the Lehman bankruptcy. This suggests it would take some time for the markets to calmly price a shift in U.S. monetary policy into the U.S. dollar's price.

Furthermore, when the Bank of Taiwan held its regular MPC meeting on June 30, it instituted a rate cut, as expected. As a result, it seems one more rate cut would take the BoT's policy rate back to its lowest level after the Lehman Shock. Nonetheless, materials released by the BoT contained no reference to the use of non-conventional monetary policy after rate cuts come to an end. Rather, the BoT called for the government to use fiscal policy to boost economic growth. This opinion makes sense and it would probably be wise to keep non-conventional monetary policy on ice as a trump card to play during emergencies. At the same time, some observers were expecting the recent rate cut to be larger in scale, so there is a danger the recent BoT MPC meeting will lead to a decline in expectations regarding monetary easing. If the Brexit issue takes a breather and the U.S. dollar swings lower, this could lead directly to Taiwan-dollar bullishness, so caution will be needed.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – July 2016

Expected Ranges	**Against the US$:**	**HK$ 7.7550–7.7800**
	Against the yen:	**JPY 12.73–13.41**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in June

The U.S. dollar/Hong Kong dollar exchange rate fell below HKD 7.76, without being able to remain at the HKD 7.77 level, as a result of U.S. dollar-selling after the release of the May employment statistics of the U.S., which turned out to be a negative surprise. Market participants were also encouraged to buy the Hong Kong dollar because of the dividends paid by Chinese companies listed in the Hong Kong market. Furthermore, investors in China have been increasingly interested in the stock market in Hong Kong, for which PER remains at around 10. From the middle of the month, the amount of investment in Hong Kong increased by more than 20% in the Hong Kong Shanghai stock connect exchange, bringing funds into the Hong Kong market. After the result of the referendum in the U.K. regarding the U.K.'s exit from the EU (the Brexit) was out, the U.S. dollar/Hong Kong dollar exchange market has been relatively stable, and the exchange rate did not exceed HKD 7.762 against the U.S. dollar.

Hong Kong dollar interest rate market in June

The three-month HIBOR, the benchmark interest rate, remained at 0.53%, thanks to abundant liquidity in the Hong Kong dollar market. According to the Hong Kong Monetary Authority (HKMA), the balance of the current account deposits remained at around HKD 300 billion. This amount is generally considered to indicate of the liquidity level in the interbank market in Hong Kong. On the other hand, the FRB revised its economic outlook downward, lowering the three-month U.S. dollar LIBOR. As a result, the interest rate differential between the three-month Hong Kong dollar HIBOR and the U.S. dollar LIBOR narrowed. The one-year U.S. dollar/Hong Kong dollar forward point remained negative, as market participants believed that the Hong Kong dollar liquidity level had been high enough. With regard to the Hong Kong dollar basis swap (Hong Kong dollar HIBOR and the U.S. dollar LIBOR) curve, the negative gap narrowed mainly because of the fact that companies in Hong Kong issued corporate bonds denominated in U.S. dollars, creating the need to exchange the U.S. dollar against the Hong Kong dollar.

Hong Kong stock market in June

The benchmark Hang Seng stock index temporarily fell below 20,000 due to the mounting possibilities for the U.K. to leave the EU. However, the index rallied to exceed 20,500 thereafter, as the public opinion poll showed that those supporting remaining in the EU were dominant. Stock prices were also supported by capital inflow from China through the Hong Kong Shanghai stock connect program. However, once the Brexit became the reality, the pressure to sell Hong Kong stocks strengthened and the index fell sharply, temporarily falling below 20,000.

2. Outlook for This Month:

Hong Kong dollar spot exchange market in July

The U.S. dollar/Hong Kong dollar exchange rate is expected to fluctuate within a narrow range between HKD 7.75 and HKD 7.77. The dovish attitude at the FRB is likely to continue keeping the Hong Kong dollar low. Furthermore, as the stock market in China remains sluggish, capital inflow into Hong Kong would increase once the Hong Kong Shenzhen stock connect program has been established. However, the demand for the Hong Kong dollar based on the need to pay dividends is likely to decrease in July, making it likely for the U.S. dollar/Hong Kong dollar exchange rate to return to the level around HKD 7.76–HKD 7.77. Nevertheless, the FRB is likely to delay its interest rate hikes, which would keep the appreciation of the U.S. dollar from accelerating. It should also be mentioned that the Chinese economy and the market sentiment in the Chinese yuan market have been considerably stable since March this year. Thus, the sharp appreciation, such as that seen in January, is highly unlikely.

Hong Kong dollar interest rate market in July

The liquidity level in the Hong Kong dollar market is expected to remain generally stable, keeping the Hong Kong dollar interest rates from rising further for the time being. On the other hand, the FRB has strengthened its dovish attitude due to concerns over economic slowdown in the U.S. and the rising uncertainty in the global economy. Therefore, the Hong Kong dollar interest rates are also unlikely to rise rapidly under the U.S. dollar/Hong Kong dollar peg system.

Chihiro Agekido, Treasury Division, MHBK (China)

Chinese Yuan – July 2016

Expected Ranges	**Against the US$:**	**CNY 6.5600–6.7600**
	Against the yen:	**JPY 14.35–16.01**
	Against 100 yen:	**CNY 6.3100–6.8200**

1. Review of the Previous Month

Foreign exchange market: The U.S. dollar/Chinese yuan exchange rate remained within a range between CNY 6.55 and CNY 6.66. The depreciation of the Chinese yuan continued due to the result of the EU referendum in the U.K.

Even though the Chinese yuan appreciated temporarily at the beginning of the month, the Chinese yuan remained weak thereafter. On June 3, the May employment statistics of the U.S. were released, revealing figures significantly below the expected level. As a result, expectations for an interest rate hike in the U.S. in the June, which had been growing since the end of May, faded in the market. The U.S. dollar depreciated sharply, leading the Chinese yuan to appreciate against the U.S. dollar from CNY 6.5850 to CNY 6.5515. On June 6, the following day, the People's Bank of China (PBOC) central parity rate was set toward a stronger yuan by 296 pips compared to the previous business day. While the market became globally volatile with cautious sentiment regarding the referendum in the U.K. about leaving the EU (the Brexit), the U.S. dollar/Chinese yuan exchange market did not move into any direction, remaining within a range between CNY 6.57 and CNY 6.59. On June 23, the referendum was carried out in the U.K., and votes were counted on June 24, the following day. The Brexit became gradually likely, leading the U.S. dollar to appreciate. Following this trend, the Chinese yuan depreciated against the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate rose rapidly from the CNY 6.57 level to the CNY 6.62 level. Thereafter, the U.S. dollar/Chinese yuan exchange rate remained above CNY 6.60, the lowest level since the beginning of the year, which had been considered to be a psychological turning point in the market. In the offshore Chinese yuan market, the Chinese yuan depreciated to its lowest level since January 2016. The gap between the onshore Chinese yuan exchange rate and the offshore Chinese yuan exchange rate widened temporarily to 340 pips. Then, on June 28, the PBOC central parity rate was set at CNY 6.6528 to the U.S. dollar, with the weakest Chinese yuan since December 2010. Thus, downward pressure has been strengthening both in the onshore and offshore Chinese yuan markets.

Interest rate market: With concerns over the liquidity level mitigated, the market remained stable.

As June was the last month of the first half of the year, capital demand increased and the liquidity level in the market was tightened at some occasions. However, the PBOC carried out open-market operations, and thanks to the effects of the operations, the market was stabilized thereafter. At the beginning of the month, funds in the market were absorbed everyday through open-market operations, including those with maturity dates during this period. However, the liquidity level remained stable, thanks to the fact that Chinese banks continued providing funds to the market, while funds were also provided through the medium-term lending facility (MLF). Toward the end of the month, however, the liquidity level was tightened to some extent due to capital demand before the end of the first half of the year, raising the money interest rates. However, the PBOC has been carrying out open-market operations in order to maintain the liquidity level.

2. Outlook for This Month:

Foreign exchange market

The Chinese yuan is forecast to temporarily depreciate this month. Given the result of the referendum carried out in the U.K. last month, market participants have been assessing the level and range of the impact of the Brexit. From a short-term perspective, U.S. dollar-buying, Japanese yen-buying, and euro-selling are expected to temporarily increase, in order to avert risks. Thus, the Chinese yuan is likely to depreciate with the rising U.S. dollar index. However, as the procedure toward the Brexit becomes clearer in time, the market is expected to retrieve its stability again. It should also be mentioned that, in the Chinese yuan market, excessive fluctuations are unlikely, as the Chinese monetary authorities are expected to restrict the purchase of foreign currencies and intervene in the market when, for example, the gap increases between the offshore Chinese yuan exchange rate and the onshore Chinese yuan exchange rate. Besides, the April–June quarter GDP of China is to be released on July 15. If the growth rate falls below +6.5%–7.0%, the target rate set out by the government, the Chinese yuan is likely to depreciate.

Interest rate market

The Chinese monetary authorities continue to keep the interest rate market stable, and Chinese banks continue to provide funds in the market. Therefore, the interest rate market is forecast to remain stable this month. However, market participants should remain cautious about the possibility for the interest rate level to fall after a moderate rise seen in the previous month before the end of the first half of the year.

Satoshi Yoshida, Asia & Oceania Treasury Department

Singapore Dollar – July 2016

Expected Ranges	**Against the US$:**	**SG$ 1.3300–1.3800**
	Against the yen:	**JPY 73.50–77.50**

1. Review of the Previous Month

In June, the Singapore dollar appreciated, reversing the trend in May with the depreciation of the Singapore dollar, as market participants sold the U.S. dollar with fading expectations for an early interest rate hike in the U.S. after the release of very weak figures in the May employment statistics of the U.S., which were released at the beginning of the month. However, the appreciation of the Singapore dollar slowed down toward the end of the month, when the majority votes turned out to support the U.K. leaving the EU as a result of the referendum carried out in the U.K., gathering significant attention in the market.

The U.S. dollar/Singapore dollar exchange market opened trading in June at the upper-SGD 1.37 level. On June 3, the May employment statistics of the U.S. were released revealing that the number of non-agricultural employees increased only by 38,000, falling considerably below the expected figure of 160,000. In reaction to this, market participants rapidly sold the U.S. dollar, leading the Singapore dollar to appreciate sharply against the U.S. dollar to the mid-SGD 1.35 level. Thereafter, FRB Chair Janet Yellen expressed her concerns over the employment statistics released this month in a speech, which lowered expectations for an interest rate hike in the U.S. further. Following this trend, the Singapore dollar continued appreciating against the U.S. dollar, and the exchange rate reached the lower-AGD 1.35 level. On June 8, the trade statistics of China were released, and the import value turned out to be more stable than expected, which also led the Singapore dollar to appreciate. As a result, the Singapore dollar continued appreciating against the U.S. dollar to the mid-SGD 1.34 level during the same week. In the second half of the week, however, the Singapore dollar was sold back, as cautious sentiment was mounting in anticipation of the referendum in the U.K. on the subject of leaving the EU. In the end, the U.S. dollar/Singapore dollar exchange rate approached SGD 1.36.

After June 13, the Singapore dollar continued slowly appreciating against the U.S. dollar until June 24, when the result of the referendum in the U.K. was announced. During this period, various opinion polls revealed that votes to leave the EU outnumbered the votes to remain in the EU, temporarily strengthening risk-averse sentiment in the market. However, the impact on the Singapore dollar exchange market was limited. On the contrary, market participants were selling the U.S. dollar and buying the Japanese yen, as a decision was taken to maintain the existing monetary policy both at the FOMC meeting in the U.S. held on June 15 and at the Bank of Japan monetary policy meeting held on June 16. Following the appreciation of the Japanese yen against the U.S. dollar, the Singapore dollar also appreciated against the U.S. dollar, and the exchange rate approached SGD 1.35. Thereafter, the Singapore dollar continued appreciating, as expectations were growing for the U.K. to remain in the EU through public opinion polls, and the Singapore dollar reached its monthly high at the lower-SGD 1.33 level by the day of the referendum in the U.K.

On June 24, the result of the referendum in the U.K. was announced after attracting significant attention in the market, revealing the unexpected victory of those who voted to leave the EU. As a result, risk-averse sentiment overwhelmed the market. As was the case with other Asian currencies, the Singapore dollar was also rapidly sold and sharply depreciated. Thus, the U.S. dollar/Singapore dollar exchange rate temporarily approached SGD 1.37. Thereafter, the U.S. dollar/Singapore dollar exchange rate returned to a level near SGD 1.35 as a result of buybacks to take profit. However, toward the end of the month, the Singapore dollar exchange market did not see any trend after the violent fluctuation. In the end, the U.S. dollar/Singapore dollar pair has been trading at around the same level, with small fluctuations in both directions.

2. Outlook for This Month

In July, the Singapore dollar is expected to gradually appreciate against the U.S. dollar. The victory of those who voted to leave the EU had not been expected, and the foreign exchange market was significantly affected by this event in June. After the referendum, market participants sold the currencies of Asian and emerging countries to avert risks. Following this trend, the Singapore dollar also depreciated significantly compared to the level before the referendum. Market participants are likely to continue selling Asian currencies in July and after, with concerns over the economic impact caused by the exit of the U.K. from the EU. On the other hand, however, there are also those who expect the interest rate hikes in the U.S. to slow down as a result of this result of the referendum, which would bring some stability to the Singapore dollar exchange market for the moment.

In general, market participants tend to sell the currencies of countries with a current deficit at a time of financial crisis. Singapore, on the other hand, has stable current profit with a strong financial base, which can keep the Singapore dollar relatively stable compared to other currencies in the region, even when risk-averse sentiment is strong in the market. Indeed, when the currencies of other Asian countries were sold in June with a growing sense of uncertainty over the referendum in the U.K., the Singapore dollar was rather on the rise. As was mentioned above, it should also be stated that the U.S. has been the main leading wheel in the foreign exchange market in recent years. In the U.S., expectations for interest rate hikes have been fading at the moment, due to the weak figures in the latest employment statistics. Therefore, it is difficult to expect the U.S. dollar to appreciate. Thus, Singapore dollar-selling based on external factors is likely to slow down for the moment until the actual impact on the U.K. economy becomes visible.

On the other hand, given the current economic conditions in Singapore, there is no reason to buy the Singapore dollar. While there is no clear indication that external demand is recovering, domestic consumption has been sluggish. On June 15, the April retail sales figure was released, with the result of +3.8% year-on-year, slowing down from the previous month (+5.2% year-on-year). On June 23, the May CPI was announced, and the result turned out to be −1.6% year-on-year, widening the negative gap from the previous month. With regard to the core CPI as well, the result turned out to be +1.0%, falling below the market estimate (+1.2%). The news about the exit of the U.K. from the EU will not be a positive factor for the Singapore economy, and it is unlikely for market participants to buy the Singapore dollar based on domestic factors. However, it is also unlikely for market participants to sell the Singapore dollar because of the weakness of the Singapore economy.

For the above reasons, the Singapore dollar is forecast to gradually appreciate against the U.S. dollar, toward the lower-SGD 1.33 level observed in June, as market participants are unlikely to buy neither the Singapore dollar nor the U.S. dollar in July.

Hiroshi Seki, Bangkok Treasury Office

Thai Baht – July 2016

Expected Ranges	**Against the US$:**	**BT 35.00–36.00**
	Against the yen:	**JPY 2.80–2.97**

1. Review of the Previous Month

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

The U.S. dollar/Thai baht exchange market opened trading in June at THB 35.73. Thereafter, the May CPI turned out to be +0.46% year-on-year, recording positive growth for the second consecutive month, which led the U.S. dollar/Thai baht exchange rate to fall to THB 35.61. Furthermore, on June 3 local time, the May employment statistics of the U.S. were released with weak figures, which led the U.S. dollar/Thai baht exchange rate to fall sharply to THB 35.33. On June 7, the net purchase of the Thai bonds by overseas investors reached the highest level since September 2013. Along with fading expectations for interest rate hikes in the U.S., the U.S. dollar/Thai baht exchange rate continued falling to PHP 35.21. On June 8, the media reported that an armed group blew up a major U.S. oil well in Nigeria. In reaction to this report, the crude oil price appreciated, encouraging market participants to sell the U.S. dollar. Thus, on June 9, the U.S. dollar/Thai baht exchange rate reached its monthly low at THB 35.09. However, the British pound depreciated sharply, and European stock prices depreciated thereafter due to concerns over the U.K.'s exit from the EU, which encouraged market participants to buy the U.S. dollar to avert risks. As a result, the U.S. dollar/Thai baht exchange rate returned to PHP 35.23.

In the middle of the month, some public opinion polls showed that those who support the U.K.'s exit from the EU (the Brexit) were dominant before the referendum was carried out in the U.K. This fueled risk-averse sentiment in the overall market, with growing concerns over the Brexit, leading the majority of Asian currencies to depreciate. However, there was net capital inflow from overseas investors in the Thai bond market, which kept the Thai baht from depreciating. Then, the FOMC meeting was held on June 14 and 15, and the interest rate hike was postponed—as had been expected in the market. The number of committee members who expected only one interest rate hike within the year increased from one to six, revealing the dovish attitude of the FOMC. This encouraged market participants to sell the U.S. dollar. Furthermore, on June 16, the Bank of Japan decided to maintain the existing monetary policy, which led the U.S. dollar/Japanese yen exchange rate to fall sharply. Following this trend, the U.S. dollar/Thai baht exchange rate also fell to THB 35.16. However, this trend was reversed when the central bank of Indonesia decided to cut the interest rate, and then the exchange rate rose to THB 35.35 to the U.S. dollar on the same day, local time. On June 22, the central bank of Thailand unanimously decided to keep the policy interest rate at 1.50% at its Monetary Policy Committee (MPC) meeting, as had been expected in the market. On the same day, local time, expectations for the U.K. to remain in the EU strengthened further, improving the market sentiment. As a result, the U.S. dollar/Thai baht exchange rate fell to THB 35.17.

Toward the end of the month, the U.S. dollar/Thai baht exchange rate continued fluctuating within a small range at the THB 35.20 level, waiting for the referendum in the U.K. on the question of the Brexit. On June 24, the result of the referendum was dominated by votes to leave the EU, unlike prior expectations. As a result, risk-averse sentiment grew in the market, and therefore, the U.S. dollar/Thai baht exchange rate temporarily rose sharply to THB 35.53. However, in the following week, the central bank of Thailand showed its view that the impact of the Brexit on the Thai economy would be limited, while capital flow was coming back to Thai domestic funds. As a result, Thai baht-buying dominated the market, and the U.S. dollar/Thai baht exchange rate fell temporarily approaching THB 35.10 on June 29.

2. Outlook for This Month

The appreciation of the U.S. dollar/Thai baht exchange rate is likely to remain limited.

At the referendum in the U.K., the majority voted to support the idea to leave the EU. As a result, the probability of the U.S. interest rate hike by December this year calculated based on the current interest rate futures market is 11.8%, as of June 30. Thus, the market outlook for the interest rate hike by the FRB by the end of the year has significantly declined.

On the other hand, with regard to the monetary policy in Thailand, the MPC meeting was held on June 22 to unanimously decide to keep the policy interest rate at 1.50%. In the statement, the MPC explained that the Thai economy has been on a recovery based on public expenditures and improvement in the tourism sector. However, the statement also pointed out that private investment remains limited and that exports continue to decrease due to the economic downturn in neighboring countries. It should be underlined that the MPC mentioned the possibility for further changes in its monetary policy given the difference in monetary policies among major developed countries, the uncertainty over the referendum in the U.K. regarding the U.K.'s exit from the EU, and risks such as monetary uncertainty in China. Therefore, it is possible for Thailand to ease its monetary policy in the times ahead, depending on the trends in the monetary policies of surrounding countries and risk-averse sentiment in the global market.

It should also be mentioned that according to the trade statistics released by the Ministry of Commerce of Thailand, the May export value turned out to be USD 17.61 billion, –4.4% year-on-year, recording a negative growth rate for the second consecutive month. The export was sluggish in all sectors, such as that of agricultural products for China. By sector, the export of major industrial products that accounts for 80% of the total export declined by 2.2% year-on-year, while the export of agricultural and processed products declined by 7.4% year-on-year.

Despite the fact that the impact of the Brexit on exports is likely to remain for the next two to three months, exports from Thailand to the U.K. only account for 1–2% of total exports. Therefore, the long-term impact is likely to be minimal. Furthermore, according to the data provided by the Thai Bond Market Association, there has been a significant monthly net purchase of Thai government bonds by overseas investors. Therefore, capital outflow from the Thai government bond market is likely to be limited.

The U.S. dollar/Thai baht exchange rate has currently been around THB 35.20, showing some stability in the U.S. dollar/Thai exchange market. Compared to other Asian currencies, the appreciation of the U.S. dollar/Thai baht exchange rate as a result of the Brexit was limited. It is, however, possible for surrounding Asian countries to cut their interest rates in the times ahead. If the Thai baht appreciates against the currencies of its neighboring countries, the Thai monetary authorities may intervene in the market to lead the Thai baht to depreciate. While the U.S. dollar/Thai baht exchange rate is expected to remain stable in the coming month, thanks to the risk-averse sentiment in the market, the appreciation of the exchange rate is also limited, as expectations for an interest rate hike in the U.S. are fading.

Takashi Miyachi, Asia & Oceania Treasury Department

Malaysian Ringgit – July 2016

Expected Ranges	**Against the US$:**	**MYR 4.00–4.20**
	Against the yen:	**JPY 24.00–25.95**

1. Review of the Previous Month

The U.S. dollar/Malaysian ringgit exchange market opened in June at the upper-MYR 4.12 level. At the beginning of the month, market participants continue buying the U.S. dollar, as FRB Chair Janet Yellen stated that an interest rate hike in June was still possible at the end of the previous month. As overseas investors also sold the Malaysian ringgit along with sales of the government bonds, Malaysian ringgit-selling continued to bring the U.S. dollar/Malaysian ringgit exchange rate to temporarily reach MYR 4.1750 on June 2. On June 3, the Malaysian ringgit exchange rate did not fluctuate violently, as the crude oil market was impacted little by the fact that the OPEC meeting was held on the previous day but did not reach an agreement on the crude oil production target, virtually leaving each member countries to decide on their own production.

On June 6, market participants sold the U.S. dollar, as the May employment statistics of the U.S. were released at the end of the previous week with weak figures that were significantly below the expected level. Following this trend, the U.S. dollar/Malaysian ringgit exchange market opened trading after the weekend at around MYR 4.0900, with a gap from the closing rate of the previous week. As the crude oil market remained stable, Malaysian ringgit-buying increased gradually, and the U.S. dollar/Malaysian ringgit exchange rate reached the MYR 4.0230 level.

However, in the middle of the month, concerns grew over the possibility for the U.K. to leave the EU (the Brexit), which fueled risk-averse sentiment in the market. This affected the Malaysian ringgit exchange market as well. As a result, the U.S. dollar/Malaysian ringgit exchange market opened trading at the beginning of the week at the MYR 4.10 level, with a gap from the closing rate of the previous week. Thereafter, the Malaysian ringgit was occasionally bought back against the U.S. dollar to the mid-MYR 4.07 level. However, risk-averse sentiment grew again in the middle of the week to weaken the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit exchange rate reached the MYR 4.11 level. At the FOMC meeting, which gathered significant attention in the market, a dovish attitude was underlined, in reaction to which market participants sold the U.S. dollar in the U.S. dollar/Malaysian ringgit exchange market on June 16, the following day. As a result, the Malaysian ringgit appreciated against the U.S. dollar to the lower-MYR 4.08 level.

In the second half of the month, risk-averse sentiment in the market decreased rapidly on June 20, as concerns over the Brexit were mitigated. Following this trend, the U.S. dollar/Malaysian ringgit exchange market opened trading at the beginning of the week at the lower-MYR 4.08 level, with a gap from the closing rate of the previous week, which was at the MYR 4.10 level. The Malaysian ringgit continued appreciating thereafter and reached its previous month's high at the upper-MYR 3.98 level on June 24, when some news agencies reported that the votes to remain in the EU would be dominant in the referendum based on the news agencies' own public opinion surveys. However, as votes were counted, votes to leave the EU turned out to be dominant, which encouraged market participants to rapidly sell the Malaysian ringgit. Once the victory of those who support the Brexit was confirmed, the Malaysian ringgit depreciated against the U.S. dollar temporarily to the mid-MYR 4.14 level.

Risk-averse sentiment in the market was not mitigated even in the last week of the month. Even though the Malaysian ringgit exchange market stabilized to some extent, the exchange rate did not recover rapidly, remaining around the MYR 4.10 level.

2. Outlook for This Month

During the second half of the previous month, votes to leave the EU outnumbered at the referendum in the U.K. This rapidly fueled risk-averse sentiment in the market. As the currencies of emerging countries tend to weaken when market participants are nervous, the Malaysian ringgit is expected to weaken in the month to come.

It should also be mentioned that there has been a high correlation between the Malaysian ringgit exchange market and the Malaysian long-term government bond market, often leading to a situation in which the Malaysian ringgit appreciates when Malaysian government bonds are bought, while the Malaysian ringgit depreciates when Malaysian government bonds are sold. Regarding the referendum in the U.K., in response to the media report that the votes to leave the EU outnumbered those to stay, risk-averse sentiment strengthened in the market. Under such a circumstance, market participants preferred to buy the long-term bonds of developed countries, as they are safe assets. On the other hand, in Southeast Asia, market participants hurried to sell the government bonds of Malaysia and Indonesia, of which the majority of holders are overseas investors. As long as the market sentiment remains the same, a similar trend is likely to remain in the market for a while. Thus, market participants are likely to continue selling Malaysian government bonds in the times ahead, keeping the Malaysian ringgit from appreciating.

Furthermore, in the commodity market, the crude oil price, which had been on a recovery so far, has started to fall, unlike gold, the price of which has been rapidly rising as a safe asset. Thus, it is likely that the prices of major export items of Malaysia such as LNG and palm oil are also likely to decline in the times ahead, which would also be a factor to sell the Malaysian ringgit.

On the other hand, there was a by-election in two regions in Malaysia last month, and the candidates of the United Malays National Organization (BN) won in both cases, showing that the decline in the popularity of Prime Minister Najib Razak has slowed down to some extent. At the end of the previous month, the government also started the restructuring of the parliament, in order to strengthen the political base. Even though the 1MDB issue persists, political stability would support the strength of the Malaysian ringgit.

However, it should be underlined that the shock of the Brexit would not be mitigated in the short term, and market participants should stay vigilant regarding this issue. In general, however, it is most likely for the Malaysian ringgit to remain weak in the times ahead.

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

Indonesian Rupiah – July 2016

Expected Ranges	**Against the US$:**	**IDR 13,000–13,600**
	Against 100 rupiah:	**JPY 0.73–0.80**
	Against the yen:	**IDR 125.01–137.35**

1. Review of the Previous Month

At the beginning of June, the Indonesian rupiah appreciated against the U.S. dollar due to the fact that the May employment statistics of the U.S. turned out to be weaker than expected. However, the Indonesian rupiah weakened once the exit of the U.K. from the EU was confirmed.

In June, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 13,600 level. However, the May employment statistics of the U.S. were released on June 3, and the figures turned out to be significantly weaker than expected (the number of non-agricultural employees was +38,000 year-on-year, while the estimate was +160,000). As a result, the U.S. dollar started to depreciate against the Indonesian rupiah from the following week. On June 8, the U.S. dollar/Indonesian rupiah exchange rate fell to the lower-IDR 13,200 level.

Thereafter, the U.S. dollar/Indonesian rupiah exchange rate hovered around the IDR 13,300 level until June 23, when there was a referendum in the U.K. regarding its exit from the EU (the Brexit). On June 24, the media reported that the votes to leave the EU were dominant, in reaction to which market participants sold the Indonesian rupiah. While the closing rate of the U.S. dollar/Indonesian rupiah exchange market on June 23 was around IDR 13,250, the exchange rate rose temporarily beyond IDR 13,500 on June 24. Thus, on June 24, the U.S. dollar/Indonesian rupiah exchange rate fluctuated violently. Furthermore, the Japanese yen appreciated against the overall other currencies, and therefore the Japanese yen/Indonesian rupiah exchange rate temporarily exceeded IDR 134 on June 24, which was a level close to that of the time of the Lehman Shock, with a strong Japanese yen and a weak Indonesian rupiah. It should also be mentioned that the Indonesian rupiah remained weak on June 27 after the weekend.

In Indonesia, the central bank of Indonesia (BI) held its monetary policy meeting on June 16 and decided to cut the BI target rate to 6.50%. As the majority had expected the interest rate to be maintained at the previous level before the meeting, this decision was a surprise in the market, although its impact on the Indonesian rupiah exchange market was limited.

2. Outlook for This Month:

The U.S. dollar/Indonesian rupiah exchange market is forecast to fluctuate violently in the coming month.

The week commencing on July 4 is the start of the Lebaran holidays (a big festival after the fasting period), and the market will be mainly closed (the BI plans to carry out limited operations only on July 4). Therefore, trading will virtually resume on July 11.

The Indonesian rupiah exchange market is likely to continue following various trends related to the Brexit issue, actions taken by other EU member states, and the monetary policy in the U.S. In general, the Brexit issue is likely to fuel risk-averse sentiment in the market. Therefore, the Indonesian rupiah is forecast to remain weak in the coming month.

It should also be mentioned that the June employment statistics of the U.S. will be released immediately before the Lebaran holidays, and other major currencies are likely to fluctuate violently even during these holidays. Therefore, market participants should remain cautious about the trend in the Indonesian rupiah exchange market after the Lebaran holidays.

Yoichi Hinoue, Manila Branch

Philippine Peso – July 2016

Expected Ranges	**Against the US$:**	**PHP 46.00–47.50**
	Against the yen:	**JPY 2.09–2.25**

1. Review of the Previous Month

The U.S. dollar/Philippine peso exchange market opened trading in June at PHP 46.755.

At the beginning of the month, the U.S. dollar weakened against other major currencies, as expectations for an interest rate hike in the U.S. declined due to the weak figures in the May employment statistics of the U.S., which were released on June 3. Under such a context, market participants mainly bought the Philippine peso in the U.S. dollar/Philippine peso exchange market as well.

Furthermore, the crude oil price appreciated, and the U.S. dollar was sold against the currencies of resource countries. The risk-taking sentiment in the market led the overall currencies of Asian countries to appreciate.

On June 9, the U.S. dollar/Philippine peso exchange rate fell below the PHP 46 level, and market participants continued buying the Philippine peso until the exchange rate reached PHP 45.86 to the U.S. dollar, which turned out to be the monthly high for the Philippine peso.

However, the U.S. dollar/Philippine peso exchange rate did not remain below the PHP 46 level for a long time. In the middle of the month, some effect of Philippine peso-buying observed at the beginning of the month was cancelled out. The Philippine peso started to depreciate slowly thereafter, as the referendum regarding the exit from the EU was approaching in the U.K. at the end of the month, while it was a general tendency in which demand to buy the U.S. dollar tends to increase on the 15th of each month from importing companies. On Friday, June 17, trading closed at PHP 46.455 against the U.S. dollar.

On Monday, June 20, the U.S. dollar/Philippine peso exchange market opened trading at PHP 46.39. After the opening of the market, pressure to buy the Philippine peso strengthened as the exit of the U.K. from the EU became less likely during the weekend. However, before the referendum was carried out in the U.K., there were many actions to hedge risks, gradually strengthening the U.S. dollar.

On Thursday, June 23, the central bank of the Philippines held a monetary policy meeting and the policy interest rate was maintained at the existing level, as had been expected in the market. Thus, the impact of this decision in the Philippine exchange market was limited. The U.S. dollar/Philippine peso exchange rate remained at the PHP 46.50–46.60 level until Friday.

On Friday, the exit of the U.K. from the EU became a reality, which encouraged market participants to sell Philippine peso, and the U.S. dollar/Philippine peso exchange rate approached PHP 47. While the sense of uncertainty persisted in the market, the U.S. dollar/Philippine peso exchange rate reached PHP 47.23—the monthly low for the Philippine peso on June 28. The U.S. dollar/Philippine peso pair is currently trading at around PHP 47 (as of 15:00 on June 29).

2. Outlook for This Month

In order to predict the trends in the U.S. dollar/Philippine peso exchange market in July, it is important to review the situation in the Philippine peso exchange market after the referendum in the U.K. on exiting from the EU.

With regard to the U.S. dollar/Philippine peso exchange market, the Philippine peso depreciated by 0.5% on a monthly basis. The U.S. dollar/Philippine peso exchange rate remained around PHP 46–48, which has been the range in 2016.

With regard to the interest rate market, the sense of uncertainty grew in the market, strengthening the pressure to procure the U.S. dollar. As a result, the Philippine peso short-term interest rates in the foreign exchange swap market declined, for example almost by 1% for the one-month interest rate. However, the excessive price action is currently being adjusted.

With regard to the stock market in the Philippines, on June 24, when the exit of the U.K. from the EU became a reality, stock prices declined by 1.3% from the previous day at the end of daily trading. However, market participants bought stocks back on the following business day, and the stock market stabilized again. On June 29, stock prices renewed their highest levels observed since the beginning of 2016. The stock prices are even approaching the all-time high seen in March 2015. Due to the decision in the U.K. to leave the EU, it is possible for stock prices to start falling, reversing the uptrend observed since 2014. However, market participants are currently actively buying stocks.

Under such circumstances, the Philippine peso is expected to start appreciating once the market is stabilized further.

Last month, the central bank of the Philippines decided to maintain the policy interest rate at the existing level, leaving some room for flexible operations in the times ahead (the Philippine peso market liquidity level has been sufficient).

When the market is turbulent, market participants tend to pay attention to the ability to procure foreign currencies in a country as a whole. In the case of the Philippines, foreign currencies are procured through OFWs (Overseas Filipino Workers) remittances. Even though market participants should pay more careful attention to the figures released every month, there is no imminent concern.

In the Philippines, the new government under new President Rodrigo Duterte was launched on June 30. The government is expected to take over the economic policy from the previous government. Even though market participants tend to hold negative sentiment regarding political risks, there are more expectations than fear at the moment. The U.S. dollar/Philippine peso exchange rate is thus expected to approach PHP 46.

Tatsuaki Kihara, Asia & Oceania Treasury Department

India Rupee – July 2016

Expected Ranges	**Against the US$:**	**INR 66.50–69.00**
	Against the yen:	**JPY 1.44–1.56**

1. Review of the Previous Month

In June, the U.S. dollar/Indian rupee exchange market generally followed overseas factors such as speculations about the U.S. interest hike as well as the referendum on the exit of the U.K. from the EU, while there were some moments in which the Indian rupee was sold due to domestic factors, such as the speculative news articles about the course of action by Royal Bank of India (RBI) Governor Raghuram Rajan, whose term is ending in September.

At the beginning of the month, the media reported that RBI Governor Raghuram Rajan was reluctant to be re-appointed as RBI governor. In reaction to this news, the Indian rupee was sold against the U.S. dollar and the exchange rate approached INR 67.50. However, the RBI thereafter intervened in the market by buying the Indian rupee, while expectations for an early interest rate hike in the U.S. declined after the release of the May employment statistics of the U.S., encouraging market participants to buy back the Indian rupee. The U.S. dollar/Indian rupee exchange rate thus returned to a level near INR 66.50.

On June 7, the RBI decided to keep its policy interest rate, the repo rate, at 6.50%, as had been expected in the market, while also maintaining other monetary policy as well.

After the market closed in India on June 10, the April industrial production of India was announced, and after the market closed in India on June 13, the following business day, the May Consumer Price Index (CPI) of India was announced. The industrial production figures turned out to be –0.8% year-on-year, significantly below the market estimate, which was +0.6% year-on-year. The CPI was +5.76%, above the market estimate, which was +5.60%. Both indices turned out to be a negative for the Indian economy, as was the case in the previous month.

On June 15, local time, the FOMC had a meeting and decided to keep the interest rate at the existing level. However, as the market consensus had already been for the FOMC to keep the interest rate at the existing level, the reaction in the market to this decision was minimal.

On June 20, it was announced that RBI Governor Raghuram Rajan would resign on September 4, when his three-year term is to end. As a result, the Indian rupee depreciated against the U.S. dollar and weekly trading opened at the upper-INR 67.6 level, with a gap from the closing rate of the previous week. However, risk-taking sentiment grew in the market thereafter, encouraging market participants to stop selling the Indian rupee further and to start buying it back.

The main focus of market participants shifted thereafter to the referendum in the U.K. regarding its exit from the EU. Once the result had been out and when the exit from the EU became a reality, risk-averse sentiment grew in the market, seeking assets of higher quality. As a result, market participants bought the Japanese yen and the U.S. dollar. Following this trend, the Indian rupee depreciated significantly against the Japanese yen and the U.S. dollar, as was the case with other currencies of emerging countries. The Indian rupee depreciated once to reach the INR 68.2 level against the U.S. dollar. It seems that the RBI intervened in the market thereafter by buying the Indian rupee, which brought the U.S. dollar/Indian rupee exchange rate to the INR 67 level. Trading closed at that level.

2. Outlook for This Month

As has been the case so far, the U.S. dollar/Indian rupee exchange market is likely to continue following external factors in July, such as the decisions regarding the interest rate hike in the U.S. as well as the impact of the exit of the U.K. from the EU. Furthermore, the successor of RBI Governor Raghuram Rajan will be an important factor.

It would take a substantial length of time for the market to digest the impact of the exit of the U.K. from the EU. However, the crude oil price depreciated due to risk-averse sentiment in the market, which is a positive factor for the Indian rupee, as India is a country that is importing crude oil. However, it should be mentioned that it would take some time for the crude oil price to impact the actual consumption level, as the crude oil price had been on a rise since the beginning of 2016. Market participants should therefore pay attention to the trends in the crude oil market and to inflation. It should also be mentioned that the amount of precipitation during the monsoon period often impacts both economic conditions and inflation in India.

The Indian economy is generally led by domestic demand, and therefore the impact of the exit of the U.K. from the EU is not likely to be as high as other in Asian countries in relative terms. The monsoon season this year is expected to be more severe than in average years, while the salary of civil servants has been raised. The household consumption is thus expected to gradually grow the times ahead. As long as there is no clear sign of inflation, the RBI still has some room for interest rate cuts. Thus, the Indian rupee is expected to remain stable in the times ahead.