Mizuho Dealer's Eye

August 2016

Mizuho Bank, Ltd.

Forex Department

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U.S. Dollar – August 2016

Expected Ranges Against the yen: JPY98.00–105.00

1. Review of the Previous Month

The dollar/yen pair rose in July on expectations about Japanese economic policies, though its rally was capped.

It began the month trading at the lower-103 yen mark. It dropped to the upper-101 yen level on July 5 after the Nikkei Stock Average dipped and U.S. interest rates fell. It was then dragged down to the lower-101 yen mark by the bearish results of the U.S. May New Orders for Manufactured Goods indicator. The risk-off mood grew stronger on July 6 on sliding Asian and European stocks, with the currency pair trending downwards at a faster pace to hit the lower-100 yen mark. It then bounced back on the improved results of the U.S. May trade balance and the June Non-Manufacturing ISM Report on Business. With the U.S. June employment data also beating market expectations, the pair gained to the lower-101 yen range. This level saw selling for profit taking, though, with the pair temporarily falling to 99.99 yen.

The pair moved firmly mid-July. This was partly due to the robust results of the U.S. employment data for June, but the pair was also bought after the ruling party scored a major victory in the Japanese upper house elections, with the Nikkei subsequently soaring on growing expectations about Japanese economic policy. All this saw the pair rising to around 105 yen. Expectations for further easing by the Bank of Japan (BOJ) grew on July 14 after news emerged that former Special Advisor to the Japanese Cabinet Etsuro Honda and FRB Chair Ben Bernanke had discussed the idea of perpetual bonds at a meeting in April. As a result, the dollar/yen pair climbed to around 106 yen. Its topside was held down for a time following the terrorist attack that occurred in Nice, France on July 15, but it then climbed further to 106.32 yen on the firm results of China's GDP data for April–June. However, risk-evasive yen buying then accelerated and the pair fell back to 104.63 yen following a coup d'état in Turkey. It rebounded at the start of the next week, on July 18, as risk sentiments improved again after the Turkish coup attempt was quashed. It continued to rise on July 20 on reports that the Japanese government was considering an economic stimulus package worth over 20 trillion yen. On July 21 it rose to the monthly highest 107.49 yen. However, it then plunged to the mid-105 yen range during overseas trading time following comments by BOJ Governor Haruhiko Kuroda that there was "no need and no possibility for helicopter money." News emerged on July 22 that the Japanese economic stimulus package could be as big as 20–30 trillion yen. With expectations also growing that the BOJ's Monetary Policy Committee (MPC) would implement further easing when it met on July 29, the currency pair rallied to 106 yen again.

The pair moved with a heavy topside toward the end of the month amid erratic trading. It fell temporarily to 104.00 yen on July 26 on a decline in excessive expectations for Japanese economic policy. It shot back to around 106.50 yen on July 27 on headlines about a 27-trillion-yen stimulus package and the potential issuance of 50-year JGBs, but with the Japanese Ministry of Finance pouring cold water on the latter idea, the pair then crashed to the lower-105 yen level. The FOMC meeting on July 27 sprung no surprises. The BOJ MPC meeting did announce some further easing on July 29, but this was smaller than previously expected and the currency pair fell further on disappointed selling. It ended the month trading at 102.04 yen.

2. Outlook for This Month:

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

Expectations for a postponement of rate hikes had surged in the U.S. on the bearish May employment data and the UK decision to leave the EU (Brexit), but the June employment data was quite robust and excessive pessimism about Brexit has also receded, so the markets are gradually regaining composure. The FOMC's July 27 press release stated that 'near-term risks to the economic outlook have diminished,' with the FOMC leaving the door open for rate hikes at the next meeting or thereafter. However, this had a limited impact on the dollar/yen pair. Furthermore, the movements of short-term interest rates suggest the markets are not really pricing such a move, so it seems most market participants remain cautious when it comes to the possibility of an early rate hike.

Japan's ruling party scored an overwhelming victory by winning a majority of the seats up for re-election at Japan's upper house election on July 10. The government then announced an economic stimulus package worth more than 28 trillion yen on July 27. Furthermore, at its closely-watched meeting over July 28–29, the BOJ's MPC signaled it would take coordinated action to tackle deflation. It eased further by (1) increasing its annual ETF purchases (from around 3.3 trillion yen to 6 trillion yen), (2) doubling the size of its lending program to support growth in U.S. dollars (from $12 billion to $24 billion), and (3) the establishing a new facility for lending government bonds to be pledged as collateral for U.S.-dollar funds supplying operations. Considering how the BOJ had previously rolled out a series of measures that topped market expectations, though, this modest package seemed to point to the 'limits of monetary easing.' The yen subsequently gained on disappointed selling by those investors who had expected some bolder easing measures.

The next FOMC meeting will be held over September 21–22. It will be preceded by the Jackson Hole symposium (on August 26) and the release of two sets of employment data. If the employment data remains firm, the economic outlook might be upgraded further on an improved jobs environment, just like in the last FOMC statement. Market participants have remained cautious about the prospect of a September rate hike, but expectations will probably rise again if this scenario does come to pass. However, Japanese investors remain hungry to invest in overseas bonds, so as with the last rate hike (on December 16, 2015), if interest rates do rise on swelling anticipation for a rate hike, this phase is likely to be curtailed by yield hunting. Under these circumstances, Japanese-U.S. interest rate differentials will probably not expand much, with the dollar/yen pair's upwards momentum capped. There are no noteworthy events on the cards in Japan and investors will be thin on the ground due to the summer holidays, so the markets could easily slip into 'summer dry season' mode this month. Furthermore, the negative economic impact of Brexit is unlikely to be wiped away just yet and there is a dearth of positive factors capable of significantly shifting prevailing market sentiments, so on the whole the dollar/yen pair looks set to continue trading with a heavy topside in August.

Dealers' Market Forecast

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

Bullish on the dollar (5 bulls: 102.00–111.00, Core: 102.00–108.00)

Fujisaki	102.00 – 110.00	Speculators will continue to unwind their yen long positions on expectations about the impact of policies in Japan. Hearty Japanese demand for direct investment and purchases of foreign securities will also support attempts at a rally. A glance at the flow situation shows no major disequilibrium, so some speed adjustment will be needed to the sharp yen appreciation that has occurred up until now.
Kato	102.00 – 111.00	The Japanese government and the BOJ have reiterated their commitment to achieving their inflation target. Some further deflationary countermeasures will be needed beyond those already introduced. These will probably be implemented from here on in order to boost the expected inflation rate.
Sato	102.00 – 108.00	Expectations for a U.S. rate hike will probably rise on firm U.S. economic indicators and financial market stability. The dollar/yen pair's room on the downside was capped after the BOJ MPC meeting and this is also likely to make investors feel more comfortable about buying the dollar. The pair will probably move firmly in the run up to FRB Chair Janet Yellen's speech at the Jackson Hole monetary and economic symposium on August 26.
Omi	103.00 – 108.00	The dollar/yen pair's upward momentum will be supported by: anticipation for further U.S. rate hikes within the year; and expectations for an economic uplift from Japanese fiscal policy. The markets will be on summer vacation until mid-August, though, so any fully-fledged rise will probably occur after the August 26 Jackson Hole symposium. Furthermore, thin trading could see the pair moving erratically on major flow trends or other sharp market fluctuations, so caution will be needed.
Nishitani	102.00 – 108.00	It is significant that the feared yen appreciation did not come to pass after the BOJ MPC meeting. The dollar/yen pair will probably be pulled along by U.S. factors this month. If the U.S. posts some firm economic indicators, starting with the July employment data, then expectations for a rate hike will probably rise in the run up to FRB Chair Janet Yellen's speech at the Jackson Hole symposium in the latter half of the month. The pair will move in a slightly bullish direction.

Bearish on the dollar (6 bears: 97.00–107.00, Core: 98.00–107.00)

Yamashita	97.00 – 107.00	Though the BOJ implemented further easing, it was limited in scale, so then yen continued to trend upwards. The next focal point for the markets will be U.S. rate hikes. If FRB Chair Janet Yellen fails to mention a timeframe during her speech at the Jackson Hole symposium, the yen could climb even higher.
Yano	98.00 – 105.00	Expectations for a U.S. rate hike could surge on the U.S. employment data or the Jackson Hole symposium, but like after the December rate hike last year, any expansion of Japanese/U.S. interest-rate differentials will probably be curtailed by yield hunting movements, so the dollar/yen pair's room on the topside will be capped. The pair will also be weighed down by the ongoing risk of an economic deterioration due to Brexit, so August is unlikely to see a significant improvement in market sentiments.
Takada	98.00 – 107.00	Though market risk sentiments are improving on the whole, with yields on U.S. treasuries moving at lows, the dollar/yen pair will probably trade with a heavy topside. If expectations for a U.S. rate hike rise on robust U.S. economic indicators, the pair could climb higher, but with the U.S. presidential election looming in autumn, any bounce-back will probably be temporary in nature.
Nishijima	98.00 – 107.00	Following a series of Japanese and U.S. monetary policy events, the dollar/yen pair has not regained composure and it heads into the summer dry season in an unstable state. Momentum for further U.S. rate hikes dropped off sharply for a time and there are no signs of it picking up again. If the BOJ's new easing package fails to have much of an impact and uncertainty grows about the effectiveness of Japanese economic policy, the yen could soon begin trending upwards again.
Shimoyama	98.00 – 107.00	Expectations for U.S. rate hikes within the year are moving sluggishly. With a U.S. presidential election looming, these expectations are unlikely to rise from here on, either. With regards to anticipation about further Japanese easing, the BOJ only introduced some small-scale easing measures at the end of July, so from here on, there is likely to be a shortage of speculators willing to engage in fully-fledged yen selling. The dollar/yen pair's topside will probably be held down by

		speculative movements and moves by Japanese exporters convert funds into yen.
Moriya	98.00 – 106.00	The dollar/yen pair bounced back for a time from mid-July onwards on anticipation about Japanese policy and expectations for further easing, but the BOJ's easing package was comparatively small in the end, so the yen is expected to rise again from here on. The contents of the FOMC's July statement also failed to rouse expectations for an early U.S. rate hike, so the markets are unlikely to see any active dollar buying this month.

Tomoko Yamashita, Forex Sales, Forex Department

Euro – August 2016

Expected Ranges **Against the US$: US$1.0500–1.1300**
Against the yen: JPY110.00–117.00

1. Review of the Previous Month

The euro/dollar pair moved without a sense of direction around the mid-$1.10 mark in July.

After opening the month at the lower-$1.11 level, the pair fell to the upper-$1.10 range on July 4 after a eurozone investor confidence index for July fell to an 18-month low. However, it then bounced back to the lower-$1.11 level on speculation about an intervention by the Swiss National Bank (SNB) to buy the euro and sell the Swiss franc. The pair shot up to $1.1187 toward July 5, but it then dropped back to the upper-$1.10 level as dollar buying picked up. The U.S. trade balance for May and the Non-manufacturing ISM Report on Business for June were released on July 6. Both significantly outperformed market expectations, with the pair subsequently falling to $1.1029. However, with the NY Dow-Jones Average rising and the euro/yen pair being bought thereafter, the euro/dollar pair was dragged up to the lower-$1.11 range. The euro was sold and the pair fell to the upper-$1.10 mark on July 7. This followed news that the European Commission had recommended that Spain and Portugal be sanctioned for breaking the EU's rule about keeping deficits within 3% of GDP. The pound rose the following week when the UK Home Secretary Theresa May was confirmed as Prime Minister. The euro/dollar pair was also pulled along to hit the upper-$1.10 mark, but it then dropped back to the lower-$1.10 level again on dollar buying. The Bank of England (BOE) unexpectedly kept policy rates fixed on July 14. Sterling soared as a result, with the euro/dollar pair also pushed up temporarily to $1.1165. It subsequently dropped back to the upper-$1.10 range after the dollar was bought on bullish U.S. economic indicators, but it bounced back to the $1.11 level on July 15 amid thin trading. It opened the next week at the upper-$1.10 mark and was then pulled up to $1.1085 by a bullish euro/yen pair. With dollar buying intensifying thereafter, the euro/dollar pair dropped back to around the mid-$1.10 mark. Risk aversion increased on July 19 on the bearish results of the July German ZEW Indicator of Economic Sentiment together with rumors of an explosion (later confirmed to be a fire) in Ankara, Turkey. The currency pair fell to around $1.10 as a result. It dropped to $1.0980 on July 20 amid dollar buying, but it then returned to the lower-$1.10 level as the euro was bought back in advance of the following day's meeting of the ECB's Governing Council. As expected, the Council kept monetary policy fixed when it met on July 21, though it hinted that policy could be eased again from the September meeting onwards. The euro/dollar pair temporarily rose to the upper-$1.10 level in the wake of the meeting. With speculation smoldering away about further easing, though, attempts on the pair's topside were limited and it dropped back to the upper-$1.09 level. It then rose to the upper-$1.09 mark on July 25 on the bullish results of the German IFO Business Climate Index for July and the firm movements of European stocks. It fell to around the mid-$1.09 level on July 27 as the dollar was bought in the wake of the FOMC meeting, but with the greenback sold thereafter, the pair then rocketed to the upper-$1.10 range. It strengthened to $1.1121 toward July 28, but it was then pushed back to the upper-$1.10 level. However, with the Bank of Japan's Monetary Policy Committee (MPC) only announcing a small package of new easing measures on July 29, the dollar/yen pair fell sharply and the euro/dollar pair rallied to $1.11 on dollar selling.

2. Outlook for This Month:

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

The ECB Governing Council decided to leave monetary policy unchanged when it met last month. The Council did not have enough economic data available to gauge the impact of the leave camp's victory in the UK referendum (Brexit). It also stated it would not verify the impact of the Brexit vote until its economic outlook was released in September. It is likely the Council's decision was also shaped by the Bank of England decision not to cut rates, for example, as well as the arrival of summer and the subsequent decline in liquidity. Nonetheless, it seems the ECB will no longer be able to hold off from easing again in September. For a start, Monte dei Paschi, Italy's third largest bank, faces a capital shortfall. On July 19, a ruling by the European Court of Justice was seen by the markets as paving the way for shareholders to take a haircut in the event of a capital injection by the Italian government. European stocks were subsequently sold across the board for a time. On July 29, meanwhile, the European Banking Authority (EBA) released the results of its stress tests on European banks. Though the tests did not dole out passes or fails, it emerged that several banks did not reach core capital ratios of 5.5% last year, with the EBA chairman also announcing that the results did not signify a clean bill of health, with Europe's financial sector still facing concerns.

The Greek government met its sovereign debt repayments on July 20, but it only managed to do so by using the bailout funds received in June. The IMF and EU are also taking different views when it comes to the stalling fiscal reforms of the Tsipras administration. As all this suggests, the Greek problem also continues to smolder away. Furthermore, though Brexit has drawn attention to a potential UK economic recession, it is also unclear how the loss of the UK will impact the EU economy. In fact, recent eurozone economic indicators have been moving weakly on the whole, including some dating back to before the UK referendum, so eurozone inflationary expectations continue to trend lower. At the same time, over 10,000 military personnel and government officials have been dismissed in Turkey following the failed coup d'état there. If security breaks down at the borders Turkey shares with neighboring Islamic countries, this may see more extremist groups infiltrating the eurozone and it could lead to more terrorist incidents. The rise of geopolitical risk in the eurozone could dampen consumer sentiments (as happened in France after the recent terrorist attacks there), thus leading to a slump in domestic demand.

When it comes to its monetary easing, the ECB is reaching the limits of what it can do with deposit facility rates and so on. Some observers believe the ECB will find it hard to ease further from here on, with the authorities also expecting the ECB's key interest rates to remain at or below current levels into the long term. As a result, the environment surrounding the eurozone suggests the ECB is being pushed to the limit when it comes to policy changes. If we assume further easing at the September ECB meeting is an inevitability given the dearth of any positive factors, then the euro currently seems overpriced.

Dealers' Market Forecast

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

Bullish on the euro (3 bulls: 1.0900–1.1350, Core: 1.0900–1.1300)

Sato	1.0900 – 1.1300	There are concerns that Brexit will lead to growing uncertainty about the direction of the eurozone economy, but concerns about the euro's downside are easing on the current composure of the financial markets. While expectations for U.S. rate hike are starting to bubble up again, it is hard to imagine the ECB moving swiftly to implement further easing, so the euro/dollar pair may stage a comeback in August.
Omi	1.0900 – 1.1200	The euro is beset by concerns about the impact of Brexit, but the negative impact on economic indicators has been limited so far. With market participants also focusing on low inflation in the eurozone, the euro/dollar pair is unlikely to trend lower this month either. However, any further rises will be kept in check by concerns about dollar bullishness due to U.S. rate hikes, so the pair will probably remain deadlocked at its current level.
Nishitani	1.0950 – 1.1350	Concerns about Brexit continue to smolder away, but the market despair that prevailed after the vote eased off after the UK has moved faster than expected to appoint Theresa May as the next Prime Minister. Furthermore, though the ECB maintains an accommodative stance, it will not rush haphazardly to introduce further easing, so the euro looks set to move firmly this month.

Bearish on the euro (8 bears: 1.0500–1.1300, Core: 1.0600–1.1200)

Fujisaki	1.0500 – 1.1300	The euro is moving with a heavy topside on Brexit uncertainties and the bad debt problems of a major Italian bank. Under these circumstances, market participants will need to continue monitoring the U.S. employment data in case it leads to a decline in expectations for U.S. rate hikes. If the U.S. posts some bullish data for the second consecutive month, this will spur on dollar buy-backs.
Kato	1.0500 – 1.1200	Now Brexit is out of the way, attention will probably swing to Italy. If Prime Minister Matteo Renzi steps down, some domestic turmoil will be unavoidable. Even if Italy does not leave the euro, the situation will continue to place downward pressure on the single currency.
Yamashita	1.0500 – 1.1200	Eurozone risk sentiments have worsened on: concerns of a capital shortage at an Italian bank; and a number of terror-related incidents, including the abortive coup d'état in Turkey. The ECB Governing Council is now expected to the lower the deposit facility rate when it next meets. As a result, investors will probably steer clear of the single currency this month.
Yano	1.0600 – 1.1200	Following on from Brexit, turbulence is now spreading throughout Italy and other nearby countries, so investors will find it hard to buy the euro. The single currency will also move with a heavy topside on the possibility of further easing by the ECB.
Takada	1.0700 – 1.1200	Amid concerns about the directions of the UK and Chinese economies, it is hard to rule out the possibility of further easing by the ECB. If high-ranking officials drop hints about easing, the euro will probably move with a heavy topside. Southern European countries also face a number of uncertainties when it comes to their finances and financial systems. This will also make the euro susceptible to downswings.
Nishijima	1.0600 – 1.1200	Eurozone business sentiments have not deteriorated as much as expected in the wake of the Brexit vote, but there remain a number of negative factors, such as the problem of a major Italian bank that needs an injection of capital. With speculation also likely to swirl away about further ECB easing, the euro will probably trade with a heavy topside this month.
Shimoyama	1.0700 – 1.1300	The aftershocks of Brexit seem to have cooled off for a time, but speculation about further ECB easing continues to smolder away. At the same time, the introduction of negative interest rates by the ECB is starting to have a harmful impact on Europe's financial institutions, with the European economy facing a number of negative factors. As a result, the euro is expected to edge lower in August.
Moriya	1.0600 – 1.1200	The eurozone's economy is plagued by a number of uncertainties, such as the negative impact of the Brexit decision and the bad debts of an Italian bank, so the euro's topside will probably be capped this month. The single currency is also likely to be sold on expectations for further ECB easing together with the heaviness of the pound's topside.

Hidetoshi Honda, Europe Treasury Department

British Pound – August 2016

Expected Ranges	**Against the US$:**	**US$1.2950–1.3450**
	Against the yen:	**JPY130.00–140.00**

1. Review of the Previous Month

The pound moved bearishly at the start of July to renew its post-Brexit low in June, though it clearly rallied against the major currencies toward mid-July. Looking back, though, it seems sterling was unable to escape from trading bearishly at historical lows.

After plunging after the Brexit vote, the pound had transitioned to standing still at lows. It fell again on July 5 when several UK real estate funds suspended repayments after being unable to meet a flurry of redemption requests. By July 6, the pound had hit $1.2798, 128.82 yen and GBP0.8629 against the dollar, yen and euro, respectively. In doing so, sterling hit its lowest point against the three currencies since June 1985 (the dollar), November 2012 (the yen) and August 2013 (the euro). The U.S. employment data for June was released on July 8. At +287,000, the non-farm payrolls figure significantly beat market expectations. The greenback subsequently rose across the board, though this dollar buying was short-lived.

From July 11 onwards, rising risk tolerance levels across the investment markets seemed to have promoted a pound rally. On July 11, UK Minister of State for Energy Andrea Leadsom suddenly withdrew from the race to lead the Conservative Party (and thus the race the become the next Prime Minister). This handed victory to the only remaining candidate, Home Secretary Theresa May, who subsequently became Prime Minister on July 13. Some had expected the political uncertainty in the UK to drag on until September, so the markets reacted warmly to the fact that things had been resolved two months faster than expected. Market risk tolerance levels were also boosted around this time by: speculation that the Japanese government would be issuing perpetual bonds (perhaps underwritten directly or indirectly by the Bank of Japan); and a growing sense that the Bank of England (BOE) might cut interest rates in July.

In the end, the BOE's Monetary Policy Committee (MPC) decided not to cut rates or lift the ceiling of its asset purchases when it met on July 14. Market participants now faced a difficult judgement: should the decision to hold off from easing be read simply as a pound-buying factor? Or, given that speculation about easing had encouraged a pound rally, should the move be instead interpreted as a pound-selling factor? At any rate, after rising temporarily directly after the announcement, sterling then moved almost uniformly bearishly, so it seems the latter interpretation was the correct one.

A further factor behind the pound's weakness from July 15 onwards was a comment by BOE MPC member Andrew Haldane (also on July 15) that he would vote to ease further in August. However, a series of comments thereafter poured cold water on the idea of a rate cut. MPC member Martin Weale commented on July 18 that the BOE should "wait for firmer evidence [about a UK economic slowdown]" before deciding to cut rates in August, for example, while fellow MPC member Kristin Forbes wrote on July 21 that the BOE should "wait for Brexit fog to clear" before cutting rates. Nonetheless, the pound continued to move bearishly.

At the same time, the large-scale acquisition of Arm Holdings, a UK semiconductor design company, by Softbank, a Japanese telecommunications service company, reported on July 18, should have been read as a factor bolstering the value of the pound, but price movements directly after the announcement suggested this was not the case.

2. Outlook for This Month:

The pound is expected to move bearishly at a standstill at its current lows in August. Sterling's movements from here on will be influenced by the Brexit negotiations. At this moment in time, though, the EU has clearly stated it will not enter into negotiations until the UK invokes Article 50 of the Lisbon Treaty (and thus formally requests to leave the EU). The U.S. has also made it clear it will not begin standalone trade negotiations with the UK while the latter is still an EU member. Nevertheless, some kind of preparatory talks could still take place behind the scenes, but with the European and U.S. political establishments also taking vacations in August, things are unlikely to move forward this month. This is unlikely to be seen as either a negative or a positive factor. Instead, an asymmetrical situation is likely to prevail for now whereby the pound will be more susceptible to falling on negative factors than bouncing back on positive factors. The main scenario is one of standstill, but if forced to choose, it is probably wiser to be on guard against pound bearishness.

As for specific factors, the first thing to focus on will be BOE monetary policy. However, even if the impact of the Brexit vote manifests itself in July's economic indicators, the BOE's MPC will only be able to get its hands on a few July indicators before it meets on August 4. It seems the Brexit negotiations will require two years or more going forward, so it seems unlikely that the BOE will play its 'rate cut' trump card this early just because of the July results of the PMIs or other indicators of business sentiment. If the BOE feels the need to respond to market expectations, it seems more likely to do so using other tools (such as by raising the ceiling of its asset purchasing program, diversifying the type of assets purchased, or expanding its lending-for-growth support). However, as we saw when the BOE held off from cutting rates in July, at this moment in time there seems to be no clear relation between UK monetary easing and the pound's movements. As such, it is hard to gauge how sterling will be impacted by any decisions about whether to ease or what kind of measures to introduce. On this point, the BOE's quarterly Inflation Report will also be released on August 4 and this could reveal how the BOE plans to pursue monetary policy in the medium term. If so, this will probably lead directly to pound selling or buying depending on whether the BOE seems to be adopting an active stance or a cautious stance when it comes to monetary easing.

Regardless of whether or not the BOE eases again in August, market participants should continue to keep a close watch on UK indicators released from here on to gauge the impact of the Brexit vote on the UK economy and BOE monetary policy. Of particularly note will be those July indicators that paint a picture of the state of the economy, such as the July CPI data (released August 16) and the July retail sales figures (released August 18). Attention should also be paid to housing-related indicators such as the July Halifax House Price Index (month-on-month; released August 5) and the July Royal Institution of Chartered Surveyors (RICS) House Price Index (released August 10). Last month saw the suspension of a number of commercial-property funds, but price fluctuations are more easily observable in the residential property market, so from here on, perhaps home prices will be a more important benchmark for gauging the impact of Brexit.

Miki Yamaguchi, Sydney Branch

Australian Dollar – August 2016

Expected Ranges	**Against the US$:**	**US$0.7380–0.7700**
	Against the yen:	**JPY75.00–80.80**

1. Review of the Previous Month

The AUS/USD pair swung to and fro in July.

After opening trading at the lower-$0.74 mark on July 1, the pair then edged up to around $0.75. The results of the Australian general election on July 2 were very close and it was announced that it would talk several days before the result was clarified. This led to a series of negative comments by major credit rating agencies (about growing concerns of deteriorating finances, etc.). These cast doubt on Australia's triple-A credit rating, with the currency pair subsequently dropping to the lower-$0.74 level. It rallied to the lower-$0.75 mark on the rising price of iron ore and coal, two of Australia's major export items. However, it then edged down to the $0.74 range on July 5 on the worse-than-expected results of Australia's trade balance and retail sales data for May. The board of the Reserve Bank of Australia (RBA) met on the same day. As expected, it decided to keep the cash rate fixed at 1.75%, so the Australian dollar was unmoved. On July 7, S&P, a ratings agency, downgraded its forecast for Australia's triple-A credit rating from 'stable' to 'negative.' The AUS/USD pair dipped temporarily on this news, but it soon returned to its pre-announcement level. The U.S. employment data for June was released on July 8. Nonfarm payrolls grew by 287,000 month-on-month, the highest growth since October last year (and an improvement on expectations for +180,000 m-o-m). As hopes for a U.S. economic recovery swelled, risk appetite improved and the currency pair rose to the $0.75 range. On July 12, expectations for further easing by the Bank of Japan (BOJ) increased on the contents of a meeting between Japanese Prime Minister Shinzo Abe and former FRB Chair Ben Bernanke. As risk appetite grew stronger, the pair strengthened to the $0.76 level. It then moved flatly around the lower-$0.76 mark. China released its second quarter GDP figure on July 15. At +6.7% year-on-year, the figure beat the market forecast for a +6.6% y-o-y rise. China is Australia's largest trading partner, so the AUS/USD pair reacted by hitting a high of $0.7676. However, it then dropped to the upper-$0.75 mark during overseas trading time as risk aversion increased on news of a coup d'état in Turkey.

The minutes to the RBA board meeting were released on July 19. They contained no particular surprises, but the pair nonetheless fell to the upper-$0.74 level on deep-rooted market expectations for further easing. A wait-and-see mood then descended in the run up to the release of Australia's 2Q CPI data on July 27. During this time, the currency pair hovered around $0.74. In the end, the keenly-watched CPI data rose by 1.0% on the previous year (forecast: +1.1% y-o-y). The trimmed mean hit +1.7% y-o-y (forecast: +1.5% y-o-y) and the weighted median hit +1.3% y-o-y (forecast:

+1.3% y-o-y). With the trimmed mean beating expectations, the AUS/USD pair rocketed to the upper-$0.75 mark for a time, though it soon dropped back to the upper-$0.74 level. With the FOMC meeting also dropping no hints about future rate hikes, the pair continued trading around the upper-$0.74 mark.

2. Outlook for This Month:

Attention will focus on the whether the RBA board cuts rates when it meets on Tuesday, August 2.

The core inflation rate (= (trimmed mean + weighted median) ÷2) is an indicator that the RBA watches closely when implementing policy. When Australia's 2Q CPI data was released on Wednesday, July 27, it revealed that the core inflation rate had risen by 1.5% on the previous year. This was below the RBA's target range (of +2–3%), so it seems the RBA board will probably lower rates when it meets on August 2. The Australian short-term interest rate market has already priced in a 55% chance of such a move, though, so it seems the Australian unit will only fall slightly if the RBA does cut rates. In fact, if the RBA holds off from such a move, this would be somewhat of a surprise and the unit would probably shoot up.

In the U.S., meanwhile, the FOMC released a statement after its meeting over July 27–28. This was its first statement since the UK referendum, but with the negative impact of the Brexit result yet to make itself felt, the FOMC amended its risk assessment with the comment that "near-term risks to the economic outlook have diminished." With uncertainty about the future still lingering, though, the statement once again stated that "the Committee continues to closely monitor…global economic and financial developments." By upgrading its economic outlook, the FOMC left the door open for a rate hike at the next meeting in September, but the U.S. short-term interest rate futures market only puts this likelihood at 26%. If the FRB does lift rates under these circumstances, this will have a considerable impact on the financial markets, so perhaps it will hold off from such a move in September. The FRB has also talked up the importance of holding a dialogue with the markets, so all eyes will be on FRB Chair Janet Yellen's August 26 speech at the Jackson Hole symposium to see if she drops any hints about U.S. monetary policy.

Based on the above, it seems the Australian dollar will only fall slightly in reaction to an Australian rate cut. At the same time, with expectations for a U.S. rate hike remaining subdued, the greenback will be susceptible to selling. A relative comparison between the two currencies suggests the Australian unit will face less selling pressure than its U.S. counterpart, with the Australian dollar set to move somewhat firmly in August.

Finally, when the credit rating agency S&P put Australia on negative watch last month, it said there was a one-in-three chance Australia's credit rating could be downgraded in the next two years unless the federal government moves clearly to tackle Australia's budget deficit. At present, none of the other ratings agencies have followed S&P's lead and the financial markets have also regained composure. In the long term, though, the risk of a downgrade will continue to smolder away, so market participants should pay close attention to headlines related to Australia's credit rating.

Yukihiro Mitsuno, Americas Treasury Department

Canadian Dollar – August 2016

Expected Ranges	**Against the US$:**	**C$1.2650–1.3200**
	Against the yen:	**JPY76.20–80.80**

1. Review of the Previous Month

As post-Brexit risk aversion receded at the start of July, the USD/CAD pair had its low tested and it fell to C$1.2832. However, this level saw strong appetite for Canadian-dollar selling with an eye on bearish crude oil prices, so the pair bounced back. Canada then released a worse-than-expected unemployment rate for June. The keenly-watched U.S. June employment data was released around the same time and this saw the nonfarm payrolls figure significantly outperforming expectations. As a result, the greenback was bought as expectations for a U.S. rate hike flared up again. With its bottom also supported by rising U.S. long-term interest rates, the currency pair climbed to C$1.3140.

There was hearty appetite for U.S.-dollar selling at the lower-C$1.31 mark, so the pair dropped back towards the middle of the month. As long-term interest rates fell sharply in Asian and European bond markets, surplus funds made their way to U.S. stock markets. With major U.S. bank earnings also beating forecasts, the Dow-Jones Average and the S&P500 both renewed highs for successive days. The U.S. dollar was also bought and the USD/CAD pair fell to around C$1.30. Next up on the schedule was a meeting of the Bank of Canada's Monetary Policy Committee (MPC). The currency pair rallied to C$1.3080 as expectations for a rate cut rose in some quarters. In the end, though, the MPC kept the policy rate at 0.50%. BOC Governor Stephen Poloz also struck a hawkish tone with comments that the export recovery was firm and the government's economic policy was expected to boost growth by 0.50%. The currency pair weakened as a result. The U.S. retail sales data for June was released on July 15. At +0.6% month-on-month, the figure was up sharply on the prior forecast (+0.1% m-o-m), with the pair's topside subsequently edging down to C$1.2862.

It then rose towards the end of the month on bullish U.S. economic indicators. The greenback was bought on July 19 after the U.S. Housing Starts indicator for June significantly outperformed expectations. At the same time, the U.S. rig count rose after having previously trended downwards. With gasoline prices also sliding, crude oil futures fell on consecutive days to drop below $45/barrel for the first time in two months. The Canadian dollar was sold as a result, with the USD/CAD pair rising to the lower-C$1.31 level. It then fell to C$1.3057 on the better-than-expected results of Canada's May retail sales data and June CPI figure (both released July 22). The U.S. June Existing Home Sales indicator was released on the same day, though, and this was up on expectations. With crude oil futures also dropping below $43/barrel for the first time in four months, the pair broke through its C$1.3140 resistance line to bounce back to C$1.3185.

The FOMC press release was released on July 27. It included comments that "near-term risks to the economic outlook have diminished" and "indicators point to some increase in labor utilization." This hawkish tone saw the currency pair rising temporarily to C$1.3253. Canada's May GDP data was released on July 31 and it fell below market expectations. However, at an annualized +1.2%, the U.S. second quarter GDP also fell substantially below forecasts (annualized +2.4%), so the greenback was sold and the currency pair closed the month at $1.3030.

2. Outlook for This Month:

A number of U.S. economic indicators have recently improved on previous results. These include the June employment data and the June retail sales figures, both released early July. As a result, market expectations for an early rate hike have risen again and this is translating directly into U.S.-dollar buying. At some point rising U.S. interest rates will see U.S. stock markets peaking out, but this probably will not happen any time soon.

At the same time, though crude oil prices rose for a time on tensions in the Middle East, they are now undergoing some gentle adjustment. Concerns about deteriorating supply and demand conditions will be prone to flare ups going forward. With crude oil prices also dropping below the 100-day moving average, market participants are growing more cautious about future movements. If prices drop below the key $40/barrel marker, this will probably lead to growing uncertainty about the global economy, so this will be seen as a factor pushing the Canadian dollar lower.

On the whole, crude oil prices are expected to move bearishly in August. If the markets switch fully into summer-holiday mode entering August, this will probably support gasoline and crude oil prices on the downside. Furthermore, the settlement results of the U.S. energy majors have dropped below market expectations and it seems they will be hard-pressed to turn a profit at the $40/barrel mark, so they are unlikely to ramp up supply at the current $41/barrel level.

Also, though Canada's May GDP figure swung lower, this was due to a natural disaster at Alberta, an oil-producing city; other economic indicators continued to improve. At the same time, the U.S. second quarter GDP data fell significantly below expectations. There will be no FOMC meeting until September, so it is hard to see expectations for a 2016 rate hike flaring up again in August. This will probably lead to U.S.-dollar selling and Canadian-dollar buying.

Tomohiro Yamaguchi, Seoul Treasury Office

Korean Won – August 2016

Expected Ranges	**Against the US$:**	**KRW1,095–1,150**
	Against the yen:	**JPY8.77–9.58 (KRW100)**
		(KRW10.40–11.40)

1. Review of the Previous Month

In July the won moved firmly against a wide range of currencies on the back of fund inflows into South Korea. The USD/KRW pair fell further.

The pair rose at the start of July. It opened trading at KRW1153.0, up 1.2 won on the end of June, but as the previous month's post-Brexit risk aversion wore off, it then moved with a heavy topside. However, Brexit risk flared up again in overseas markets over July 4–5 on reports that several UK property funds had suspended trading. As a result, the pair hit a monthly high of KRW1169.0 on July 6, up 17.2 won on the end of June. It then moved from the upper-KRW1150 mark to around KRW1160 in the run up to the release of the employment data.

The pair fell mid-July. The U.S. employment data for June was released on Friday, July 8. It significantly beat market expectations, with the S&P500, a U.S. stock market, subsequently renewing record highs. As a result, the currency pair dropped to KRW1150 at the start of the next week, on July 11. The Bank of Korea's Monetary Policy Committee (MPC) left the policy rate fixed at 1.25% when it met on July 14. This was in line with market expectations, but the pair fell sharply on the unanimity of the decision and the stance of BOK Governor Lee Ju-yeol, which was less dovish than the previous month, when the BOK had cut rates. The Japanese markets then saw a surge in expectations for further fiscal and monetary stimulus in the wake of the July 11 upper house elections. In the U.S., meanwhile, the Dow Jones Average and the S&P500 both renewed record highs on successive days. During this time, the currency pair fell to KRW1130 on July 15. The USD/JPY pair then rose to the mid-107 yen mark for a time on speculation about 'helicopter money,' with the USD/KRW pair also bouncing back to around KRW1140, partly due to concerns about an intervention.

The pair fell late July. The USD/JPY pair stopped rising on July 21 on reports that BOJ Governor Haruhiko Kuroda had said there was "no need and no possibility" for helicopter money. Furthermore, as funds continued to flow into South Korea, its stock markets renewed highs for the year. All this saw the USD/KRW pair moving with a heavy topside. When the FOMC met on July 27, it announced that the near-term risk of an economic slowdown had diminished. However, it also indicated it was in no rush to lift rates, so the greenback fell. The Bank of Japan's MPC introduced some new easing measures when it met on July 29, including an increase in purchases of ETFs, but the package was smaller than the markets had expected, so the USD/JPY pair weakened. The USD/KRW pair also trended lower to close trading at KRW1120.2, more-or-less its lowest point for July and 31.6 won down on the end of June.

2. Outlook for This Month:

With governments across the world sticking to the path of monetary easing, the USD/KRW is expected to continue trading with a heavy topside in August.

In July the Bank of Korea's Monetary Policy Committee (MPC) reached a unanimous decision to keep policy rates fixed. BOK Governor Lee Ju-yeol also struck a less dovish than the previous month, so policy rates look set to remain unchanged in the near future, with BOK monetary policy unlikely to act as a won-selling factor.

In the U.S., meanwhile, the next FOMC meeting is penciled in for September 22. Though the FOMC upgraded its economic outlook in its July statement, it indicated it was in no rush to lift rates, so expectations for an early rate hike are unlikely to flare up from early to mid-August.

Furthermore, when the BOJ's MPC meets over September 20–21, it will conduct a comprehensive assessment of the developments in economic activity and prices and of the policy effects under quantitative and qualitative monetary easing, so it looks set to stick with an accommodative monetary policy. Asian currencies are also likely to be supported by deep-rooted expectations for easing by the Bank of England and the ECB.

However, if the U.S. posts some robust July employment data on August 5 or if FRB Chair Janet Yellen strikes a hawkish tone at her Jackson Hole speech on August 26, the greenback could move firmly, so caution will be needed. Moreover, market participants should be aware that the USD/KRW pair tends to swing upwards around the second week of August as won buying by South Korean investors drops off in tandem with the summer holidays and so on.

Junji Tsujino, Taipei Treasury Office

New Taiwan Dollar – August 2016

Expected Ranges	Against the US$:	NT$31.30–32.50
	Against the yen:	JPY3.05–3.30

1. Review of the Previous Month

Post-Brexit turmoil partially eased off in July, with the markets actually faced with rising risk appetite. Overseas investors poured funds into Taiwanese stock markets, but with the U.S. also posting a number of bullish economic indicators, the U.S. dollar also strengthened, so in the end the USD/TWD pair continued moving at more-or-less the same level. Towards the end of the month, though, the greenback fell on the results of the FOMC meeting, so the currency pair weakened on its level from the end of June.

The pair opened the month at the upper-TWD32.20 mark. The Bank of Taiwan (BOT) had announced a rate cut after close of trading the previous day. This had no impact, though, and the Taiwan dollar continued to face appreciatory pressure, with the pair dipping temporarily to TWD32.10. With the U.S. on holiday and no particular events occurring during Asian trading time, the pair swung to and fro around TWD32.20 on July 4. Market sentiments deteriorated over July 5–6 on concerns about an Italian bank and the suspension of several UK property funds. The pair gained to TWD32.40 for a time. The U.S. then posed some bullish employment data on July 6, so the market mood improved and the pair edged down to around TWD32.30 on July 7. The Taiwanese markets were off on July 8 due to a typhoon.

The Korean won rose on July 11 and the Taiwan unit followed suit, with the USD/TWD pair dropping to around TWD32.20. It then weakened to around TWD32.10 on July 14 as the Korean won strengthened after the Bank of Korea decided not to lower interest rates. As overseas investors continued to pump funds into Taiwanese stock markets on July 15, the pair was pulled down to TWD31.90 by the bullishness of the won. The U.S. retail sales data for June was released on the same day and this pushed the U.S. dollar higher, with the Taiwan unit subsequently sliding on July 18, but with overseas funds flowing into Taiwanese stocks, the pair moved around TWD32.00.

The U.S. released some better-than-expected June Housing Starts data on July 19. The greenback strengthened as a result, with the pair edging up to around TWD32.05 on July 20. It remained at this level over July 21–22, but it then rose to around TWD32.15 on July 25 on U.S.-dollar bullishness and Taiwan-dollar bearishness. It swung to and fro around this level on July 26. Taiwanese stocks rose on the release of Apple's business results on July 26. With the Taiwanese unit facing appreciatory pressure, the pair moved around TWD32.05 on July 27 in advance of the FOMC meeting. With the greenback weakened on the results of the FOMC meeting on July 27, the pair dropped below TWD32.00 and headed to around TWD31.95 on July 28. This same trend continued on July 29, with the pair trading at the upper-TWD31.80 mark.

2. Outlook for This Month:

The USD/TWD pair is expected to swing to and fro in August.

Taiwan has posted a number of bullish economic results, with June's exports, new export orders and industrial production indicators all beating market expectations. Furthermore, the GDP data finally swung up on the previous year in the second quarter, with the economy running smoothly in the run up to the electronics sales season from autumn onwards. Stock markets have also renewed highs for the year on the warm reaction to the aforementioned economic data and healthy corporate sales. Buying on balance by overseas investors topped TWD160 billion in July, the biggest monthly amount in five years.

Provided the markets remain calm, the biggest factor for the pair this month will be the movements of the greenback. The U.S. has posted a series of bullish economic indicators and the Dollar Index has risen sharply, though this strength is partly due to the comparative bearishness of the euro and yen. However, a rise in the value of the U.S. dollar is traditionally followed by a slump in the manufacturing figures and other indicators, with the U.S. dollar then dropping back. Based on this cycle, it seems investors will soon start growing wary of the greenback's bullishness. The July FOMC statement also suggests interest rates will not be lifted for the time being. Under these circumstances, the U.S. dollar is unlikely to undergo a one-sided rise and the Taiwan dollar will probably not move bearishly. If the greenback stops rising and overseas investors continue pouring funds into Taiwanese stock markets, the Taiwan unit might appreciate, so caution will be needed. However, over TWD300 billion has flowed into Taiwanese stocks in the last six months, with buying on balance now moving at its highest levels in five years. As a result, it seems more likely that the U.S. dollar will stop rising and fund inflows into Taiwan's stock markets will ease off, with the USD/TWD pair expected to swing to and fro.

At the same time, market participants should remain on guard against market turmoil. The data for July will be released from here on and this will reflect the impact of Brexit. If the housing data (mortgage approvals, prices, construction industry sentiments, etc.) and other indicators move bearishly, then depending on the atmosphere in the markets, this could rouse excessive concerns of the impact on the banking sector, with market sentiments deteriorating sharply. In this case, the U.S. dollar will be bought as a refuge currency and overseas investors will pull funds out of Taiwanese stock markets, so the Taiwan dollar will probably move bearishly.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – August 2016

Expected Ranges	**Against the US$:**	**HK$ 7.7550–7.7750**
	Against the yen:	**JPY 12.90–13.53**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in July

In July, the Hong Kong dollar appreciated in the U.S. dollar/Hong Kong dollar exchange market, thanks to the fact that capital inflow into Hong Kong increased. As a result, the U.S. dollar/Hong Kong dollar exchange rate momentarily reached HKD 7.7526 for the first time in three months. Since the referendum on the UK's exit from the EU (the Brexit), market participants have been expecting the pace of interest rate hikes in the U.S. to be slow, which accelerated capital inflow into the Asian market. Furthermore, it can also be said that the appreciation of the Hong Kong dollar was accelerated partly because of Chinese companies that bought the Hong Kong dollar against the Chinese yuan, expecting the Chinese yuan to depreciate in the times ahead. The one-year U.S. dollar/Hong Kong dollar forward point also reached its low since the beginning of the year, reflecting the capital inflow into Hong Kong as well as the high level of liquidity. Thus, the Hong Kong dollar exchange market was generally strong after the referendum on the Brexit.

Hong Kong dollar interest rate market in July

The three-month HIBOR (the benchmark interest rate) remained at around 0.55% in July, thanks to the high Hong Kong dollar liquidity level. Even though the liquidity level remains high, the current deposit balance announced by the Hong Kong Monetary Authority (HKMA) fell to HKD 287 billion, the lowest level since April 2015. This figure is considered to be a standard for the inter-bank liquidity level in Hong Kong. In the meantime, the Hong Kong dollar appreciated against the U.S. dollar to the HKD 7.7520 level because of the appreciation of stock prices that resulted from the recovery of risk tolerance. On the other hand, the three-month U.S. dollar LIBOR appreciated because of strong figures in the U.S. economic indices. The three-month U.S. dollar LIBOR has been above the level of the Hong Kong dollar HIBOR since February this year, and the gap between the two rates increased as a result of the appreciation of the U.S. dollar LIBOR. In addition, the Hong Kong dollar interest rate swap rate also appreciated, while long-term basis swaps based on the Hong Kong dollar (Hong Kong dollar HIBOR and the U.S. dollar LIBOR) show the dominance of Hong Kong dollar-collecting positions. This is due to the fact that Hong Kong companies have issued bonds denominated in U.S. dollars and have converted procured U.S. dollars into Hong Kong dollars.

Hong Kong stock market in July

The benchmark Hang Seng Index rose beyond 22,000 for the first time since the beginning of the year, thanks to the fact that the rick tolerance level has recovered, while many countries took monetary easing measures after the referendum on the Brexit. As market participants expected the pace of interest rate hikes in the U.S. to be slow in the times ahead, capital flow moved into the stock market. In particular, the stock price appreciation was led by the real estate sector. This is thanks to the fact that real estate prices rallied, as market participants expected that the policy interest rate in the U.S. would remain low for a long period. Furthermore, the Hong Kong stock market remained strong, thanks to the fact that stock markets remained robust in the U.S. and China.

2. Outlook for This Month:

Hong Kong dollar spot exchange market in August

The U.S. dollar/Hong Kong dollar exchange rate is expected to remain in the range between HKD 7.755 and HKD 7.775 in August. While the pace of interest rate hikes in the U.S. is expected to be slow, it is still possible for the interest rate to be raise before the end of the year, thanks to strong figures in economic indices and a vigorous risk-taking attitude in the market. If market participants start expecting the interest rate in the U.S. to be raised again, the U.S. dollar/Hong Kong dollar exchange rate would appreciate. Moreover, there have now been less factors to support the Hong Kong dollar, such as dividend payment by Chinese companies listed in Hong Kong as well as the expectation for the Chinese yuan to depreciate in the times ahead. On the other hand, the strong stock and real estate markets are expected to continue bringing funds, supporting the Hong Kong dollar exchange market. It is possible for Hong Kong to revise the exchange rate system pegged to the U.S. dollar and link the Hong Kong dollar exchange rate to the Chinese yuan exchange rate in the future. However, the current pegged exchange rate system is unlikely to change as long as the liberalization of the Chinese yuan exchange market remains imperfect.

Hong Kong dollar interest rate market in August

Even though the Hong Kong dollar liquidity level has depreciated, as can be seen in the current deposit balance, the general liquidity level still remains high. As long as the pace of interest rate hikes in the U.S. remains slow as it is now, there is little risk for the Hong Kong dollar interest rates to increase. However, the liquidity level of the Hong Kong dollar is expected to fall slowly in the times ahead, as market participants see it unlikely for the U.S. dollar/Hong Kong dollar exchange rate to reach HKD 7.75, the lower end of the pegged exchange rate system. In other words, it is not easy to expect the HKMA to intervene in the market to provide additional liquidity. Thus, the Hong Kong dollar interest rates are likely to increase in the long term.

Chihiro Agekido, Treasury Division, MHBK (China)

Chinese Yuan – August 2016

Expected Ranges	**Against the US$:**	**CNY 6.5800–6.7800**
	Against the yen:	**JPY 14.31–15.96**
	Against 100 yen:	**CNY 6.2700–6.9140**

1. Review of the Previous Month

Foreign exchange market

In July, the Chinese yuan remained on a downtrend and the U.S. dollar/Chinese yuan trading exchange rate temporarily exceeded CNY 6.70. The Chinese yuan rallied to a limited extent thereafter.

At the beginning of the month, the Chinese yuan depreciated against the U.S. dollar, as market participants speculated that the Chinese monetary authorities accepted the depreciation of the Chinese yuan, as the media reported on June 30 that the People's Bank of China (PBOC) had approved that the Chinese yuan would be led to depreciated to the level of CNY 6.80 against the U.S. dollar before the end of the year, although this was denied later. As a result, the Chinese yuan depreciated against the U.S. dollar and the U.S. dollar/Chinese yuan exchange rate approached CNY 6.70.

In the middle of the month, however, the sense of uncertainty related to the Brexit was gradually mitigated and market participants started buying the British pound and the euro again, leading the U.S. dollar to depreciate. As a result, the PBOC set its central parity rate toward a stronger yuan every day. Furthermore, it seemed that the Chinese monetary authorities sold the U.S. dollar and bought the Chinese yuan in order to intervene in the market. Thus, the Chinese yuan appreciated slightly in the trading market. On July 15, the April–June quarter GDP of China was released, and the result was slightly above the level expected in the market. However, the reaction in the market to this result was limited, and the Chinese yuan remained strong. However, the U.S. economic indices were released thereafter with strong figures, which led the U.S. dollar to appreciate. In response to this, the PBOC central parity rate was set toward a weaker yuan for the first time in approximately five and a half years. In the trading market, the U.S. dollar/Chinese yuan exchange rate temporarily exceeded CNY 6.70. However, the pressure to sell the U.S. dollar was strong when the U.S. dollar/Chinese yuan exchange rate was at the CNY 6.70 level, and there were actions to buy the Chinese yuan and sell the U.S. dollar that seemed to be market intervention by the Chinese monetary authorities. As a result, the Chinese yuan started to appreciate in the market. The U.S. dollar/Chinese yuan exchange rate has been at around CNY 6.67 thereafter.

In the second half of the month, the Chinese yuan continued depreciating in the trading market, while the PBOC central parity rate was set toward a stronger yuan every day and the Chinese monetary authorities seemed to have intervened in the market. This shows that the Chinese monetary authorities are cautious about the "excessive" depreciation of the Chinese yuan.

Interest rate market

In July, the money interest rates appreciated slightly, as the liquidity level somewhat declined toward the end of the month, even though the interest rate market remained relatively stable.

With the open-market operation at the beginning of the month and the matured amount together, funds were absorbed in terms of the net amount every day. However, a large amount of funds was provided in June, in order to respond to capital demand at the end of the first half of the year, while Chinese banks continued providing funds in the market. As a result, the liquidity level remained stable. Furthermore, the money interest rates that had been appreciating slowly also generally depreciated. In the middle of the month, funds were provided in terms of the net amount, thanks to open-market operations. Additional funds were also provided through mid-term lending facilities (MLF) so as to exceed the matured amount. However, in the latter half of the month, there was capital demand because of tax payment, along with MLF maturities, which lowered the liquidity level to a certain extent. As a result, money interest rates, especially those for short terms, also occasionally appreciated to some extent.

2. Outlook for This Month:

Foreign exchange market

The U.S. dollar/Chinese yuan exchange rate is expected to remain at the upper-CNY 6.6 level, as was the case in July. Since the referendum in the U.K. carried out in June, the Chinese yuan has been depreciating and recently renewed its latest low. The PBOC central parity rate has also been set toward a weaker yuan, and in the trading market, the Chinese yuan reached its lowest level in approximately five and a half years, exceeding CNY 6.70 to the U.S. dollar. While there are rumors that the Chinese monetary authorities have been intervening in the market when the depreciation of the Chinese yuan accelerates, some see that the Chinese monetary authorities have been accepting the depreciation of the Chinese yuan, in order to promote exports. Therefore, for the moment, it is difficult to expect the exchange market to move into any one direction. As has been the case so far, the purchase of foreign currencies has been severely restricted, in order to prevent funds from flowing out of the country. The Chinese monetary authorities are expected to make efforts to keep the exchange market stable, as the G20 Summit Meeting is scheduled for September 4 and 5 in Hangzhou, China.

Interest rate market

As capital demand grew for various reasons, such as tax payment, the liquidity level declined to a certain extent in the second half of July, slightly raising the money interest rates at some times. However, the PBOC is likely to continue providing funds in the market through open-market operations and MLFs, in order to keep the interest rate market stable. It is to be carefully observed whether the money interest rates that rose toward the end of July will return to their original level in the coming month.

Satoshi Yoshida, Asia & Oceania Treasury Department

Singapore Dollar – August 2016

Expected Ranges	**Against the US$:**	**SG$ 1.3300–1.3800**
	Against the yen:	**JPY 74.50–78.90**

1. Review of the Previous Month

In July, the Singapore dollar depreciated. On June 24, the media reported the victory of Brexit supporters at the referendum in the U.K., which led the Singapore dollar to depreciate against the U.S. dollar to approach SGD 1.37. Thereafter, the U.S. dollar/Singapore dollar exchange market stabilized and opened trading in July at the mid-SGD 1.34 level. As there were a number of important monetary events related to Japan and the U.S. in the last week of July, such as the FOMC meeting and the monetary policy meeting at the Bank of Japan, the exchange rate did not move into any direction. In the second half of the month, economic indices were released in the U.S. with strong figures, which encouraged market participants to buy the U.S. dollar. Following this trend, the Singapore dollar started to gradually depreciate. In the end, monthly trading closed at a level lower than that at the opening of the month.

At the beginning of the month, the Singapore dollar strengthened slightly, as the central banks of major developed countries took measures of monetary easing in response to the result of the Brexit referendum. However, on July 5, local time, news headlines reported that two major U.K. real estate companies would halt transactions, which fueled risk-averse sentiment in the market. As a result, the Singapore dollar depreciated against the U.S. dollar to the lower-SGD 1.35 level. Thereafter, the market stabilized again, waiting for the release of the employment statistics of the U.S. Along with this trend, market participants bought back the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate reached the SGD 1.34 level. However, on July 8, the June employment statistics of the U.S. were released after attracting substantial attention in the market, revealing that the number of non-agricultural employees increased by 287,000 from the previous month. This was significantly larger than the market estimate, which was an increase of 180,000. As a consequence, interest rates in the U.S. appreciated, encouraging market participants to buy the U.S. dollar, and the Singapore dollar depreciated against the U.S. dollar to the SGD 1.35 level.

In the middle of the month, there was little movement in the Singapore dollar exchange market, with mixed factors such as the stability in the Asian stock market as well as the appreciation of the U.S.

interest rates, encouraging market participants to buy the U.S. dollar. On July 14, the April–June quarter GDP of Singapore was released, and the result turned out to be as had been expected in the market. However, at the same time, the January–March quarter GDP was revised upward, which led the Singapore dollar to appreciate slightly. Thus, the U.S. dollar/Singapore dollar exchange rate reached a level near SGD 1.34—the monthly high for the Singapore dollar.

The overall trend changed slightly from July 15. The June number of housing starts and the number of existing home sales were released in the U.S., and the results turned out to be stronger than expected, showing the stability of the U.S. housing market. In response to this, the U.S. interest rates appreciated, along with the U.S. stock prices. As market participants were also expecting the Bank of Japan to take additional measures of monetary easing, the U.S. dollar/Japanese yen exchange rate started to appreciate. Following the trend of U.S. dollar-buying, the Singapore dollar also weakened against the U.S. dollar toward the end of the month. It should also be mentioned that on July 21, the monetary authorities of Singapore announced that assets of SGD 240 million have been seized due to the investigation of a state-run investment company in Malaysia (1MDB). This has accelerated the depreciation of the Singapore dollar.

In the end, the U.S. dollar/Singapore dollar exchange market opened trading in the last week of July at around SGD 1.36. At the beginning of the week, the U.S. dollar/Singapore dollar exchange rate continued fluctuating in both directions within a narrow range, waiting for the monetary policy meetings scheduled both in Japan and in the U.S. On July 27, however, the FOMC took a decision to maintain the policy interest rate in the U.S. with a dovish statement, which encouraged market participants to sell the U.S. dollar. Following this trend, the Singapore dollar strengthened against the U.S. dollar and the U.S. dollar/Singapore dollar exchange rate approached SGD 1.35. Thereafter, the Bank of Japan announced its decision to take additional measures of monetary easing at the end of the month. However, the announced measures were not as radical as expected, which encouraged market participants to buy the Japanese yen and sell the U.S. dollar. As a result, the U.S. dollar/Singapore dollar exchange market closed trading in July at around SGD 1.35.

2. Outlook for This Month

The U.S. dollar/Singapore dollar exchange rate is expected to remain within a narrow range in August. At the moment, there is downward pressure on the global economy that resulted from the result of the Brexit referendum (such as risk-averse sentiment and the trend of Asian currency-selling), as well as the fading expectation for interest rate hikes in the U.S. (leading to U.S. dollar-selling). Between these two trends, there has not been any clear trend in the Asian currency exchange market. Furthermore, market activities will be scarce in August, as market participants will be on summer holidays. The Singapore market will also be closed on August 9, as that day is Independence Day in Singapore. Therefore, the Singapore dollar exchange market is likely to be particularly quiet compared to other Asian currency markets, with little movement in the market during summer.

First of all, with regard to external factors, it has been a month since the victory of Brexit supporters at the referendum in the U.K. Under such conditions, the ZEW economic sentiment index in Germany recorded its lowest level in three years and eight months in July. Thus, the negative impact on the euro zone economy is gradually becoming visible. As 5% of Singapore's exports go to the euro zone, the slowdown of the euro economy is clearly a negative factor, which will put downward pressure on the Singapore dollar exchange market in the times ahead. With regard to the interest rate hikes in the U.S., on the other hand, the economic indices related to the U.S. housing market were released in the second half of July, revealing strong figures. Thus, some market participants expect an interest rate hike in the U.S. before the end of the year. However, given that the U.S. dollar/Japanese yen exchange rate almost fell below JPY 100 despite the fact that the employment statistics of the U.S. turned out to be strong on July 8, it should be said that market participants have still been cautious about the normalization process by the FRB. Furthermore, multiple FRB officials have said that it would be necessary to assess the impact of the Brexit on the economy. For these reasons, it is difficult to expect market participants to buy the U.S. dollar in the times ahead.

On the other hand, economic conditions in Singapore have been sluggish. On July 18, the June local export figures (excluding petroleum oil) were released, and the result was -2.3% year-on-year. As the export of electric appliances, the leading wheel of Singapore's export, remained low, overall exports have also still been on a downtrend. Furthermore, the May retail sales figures were also announced on July 15, and the result was +3.0% year-on-year, slowing down from the previous month's result (+3.8% year-on-year). Thus, there has been no sign of recovery in domestic consumption. However, the June Consumer Price Index (CPI) was released on July 25, and the core figure was up 1.1% year-on-year, showing positive growth for seven consecutive months. Therefore, the inflation pressure has been increasing, albeit slowly. Therefore, it is unlikely for the Monetary Authority of Singapore (MAS) to take an additional measure of monetary easing by the next regular meeting scheduled for October after the measure taken at the previous meeting in April. Thus, as has been the case so far, domestic factors are unlikely to influence the Singapore exchange market.

There has been no important monetary event scheduled in Japan or in the U.S. in August. While there is no strong factor to influence the Singapore exchange market both inside and outside of the country, the U.S. dollar/Singapore dollar exchange rate is expected to remain within a narrow range around SGD 1.35, which has been the case in the past several months.

Yuki Inoue, Bangkok Treasury Office

Thai Baht – August 2016

Expected Ranges	**Against the US$:**	**BT 34.50–35.50**
	Against the yen:	**JPY 2.78–3.00**

1. Review of the Previous Month

- In July, the U.S. dollar/Thai baht exchange rate remained low.

In the first part of the month, the U.S. dollar/Thai baht exchange rate remained stable. On July 1, the U.S. dollar/Thai baht exchange market opened trading at the lower-THB 35.10 level. There were few market activities, as it was a holiday in Thailand, and the Thai baht appreciated gradually as the risk-averse sentiment in the market, which increased after the decision on the Brexit was being mitigated for the time being. The June Consumer Price Index (CPI) turned out to be +0.38% year-on-year—lower than expected in the market. However, the CPI recorded positive year-on-year growth for the third consecutive month. Then, on July 4, the U.S. dollar/Thai baht exchange rate approached the THB 35 mark, however toward the middle of the week market participants started to buy the U.S. dollar as risk-averse sentient grew in the market after the media report on the suspension of U.K. real estate funds. As a result, the U.S. dollar/Thai baht exchange rate rose to the mid-THB 35.20 level. However, capital inflow into the bond market strengthened the upward pressure on the Thai baht, which kept the U.S. dollar/Thai baht exchange rate from rising further. Then, on July 8, local time, the June employment statistics of the U.S. were released with relatively strong figures. As a consequence, U.S. dollar-buying dominated the U.S. dollar/Thai baht exchange market and the exchange rate rose to approach THB 35.30 to the U.S. dollar.

In the middle of the month, risk-taking sentiment grew in the market, and therefore, the U.S. dollar/Thai baht exchange rate depreciated. The risk-taking sentiment was fueled by expectations for additional measures of monetary easing by the Bank of Japan, as well as for anticipation for the introduction of helicopter money. As a result, the Thai stock market renewed its high, and the capital inflow into the stock market led the Thai baht to appreciate. On July 14, the governor of the central bank of Thailand, Veerathai Santiprabhob, made a remark, emphasizing that "capital inflow has been increasing since the decision on the Brexit, but it is not a concern" and that "the government should take a measure of economic stimulus." Risk sentiment was improved in the overall market, and the U.S. dollar/Thai baht exchange rate fell below THB 35 and the Thai baht continued appreciating against the U.S. dollar to reach THB 34.90.

In the last part of the month, the U.S. dollar/Thai baht exchange rate remained within a narrow range around THB 35.00. The Thai market was closed on July 18 and 19, and stock prices continued renewing the high after the consecutive holidays. Under such conditions, the U.S. dollar/Thai baht exchange rate started fluctuating within a narrow range around THB 35.00. Thereafter, the media reported on July 21 that Governor of the Bank of Japan Haruhiko Kuroda made a remark that there would be no necessity or possibility for helicopter money, which led the U.S. dollar/Japanese yen exchange rate to fall sharply, encouraging market participants to sell the U.S. dollar. Following this trend, the U.S. dollar/Thai baht exchange rate remained low as well. Toward July 22, the U.S. dollar/Thai baht exchange rate fell to the upper-THB 35.80 for the first time since the first part of May this year. However, market participants still expect market interventions by the central bank when the exchange rate sharply depreciates. As the appreciation of stock prices slowed down for the moment, the U.S. dollar/Thai baht exchange rate rallied slightly to approach THB 35.00. Thereafter, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range around THB 35.00, as important events were approaching, such as the FOMC meeting and the monetary policy meeting at the Bank of Japan. On July 27, the June trade statistics were released, and exports recorded negative growth of 0.1%. Even though the negative growth was not as significant as was expected in the market, exports recorded negative year-on-year growth for the third consecutive month. Thereafter, the FOMC released its statement, but there was no element to fuel expectation for an early interest rate high. Furthermore, the additional measures of monetary easing announced by the Bank of Japan turned out to be small-scale measures, against market expectations. As a consequence, U.S. dollar-selling became dominant and the U.S. dollar/Thai baht exchange rate continued falling to approach THB 35.80.

2. Outlook for This Month

In August, the U.S. dollar/Thai baht exchange rate is expected to gradually fall.
The U.S. dollar/Thai baht exchange rate continues to fluctuate within a narrow range. As there have not been sufficient expectations for the FRB to raise the interest rate, market participants are more likely to sell the U.S. dollar. Furthermore, there has been extremely limited market reaction to headlines related to the terrorist attacks that have been intermittently reported in various countries. Thus, it is unlikely for U.S. dollar-buying to increase in times of emergency. With regard to the U.S. dollar/Thai baht exchange market, the exchange rate has been slightly lower, fluctuating within a narrow range around THB 35.00 after falling below the THB 35.00 mark, which had been seen as an important turning point in the market.

While the central banks of neighboring countries are taking measures of monetary easing, the central bank of Thailand (BOT) has taken no such action. The minutes of the MPC meeting (held on June 22) were released on July 6, revealing that the central bank left some room for changes in its monetary policy (room for interest rate cuts) given various risks related to the Brexit and to economic turndown in China. Thereafter, the Brexit referendum was carried out in the U.K., and the result was a victory for the supporters of an exit from the EU. Even though this caused turbulence in the overall market, it did not last for a long time. While there are still external risk factors, the BOT seems relatively optimistic with regard to the domestic economy of Thailand. Therefore, it is difficult for the BOT to unexpectedly and immediately cut the interest rate as was done by other central banks. As CPI has been recording positive year-on-year increase for three consecutive months and as the BOT has not changed its outlook that the CPI would reach its target range, which is +1.00–4.00% by the second half of this year. The BOT has also indicated its outlook that the April–June quarter GDP, which is to be announced on August 15, will show accelerated growth compared to the January–March quarter, thanks to governmental expenditures and strong performance in the tourism industry.

Personally, it is interesting that the minutes of the MPC meeting held on June 22 did not include a statement related to the concerns over the appreciation of the Thai baht. In the last part of June when the meeting was held, the U.S. dollar/Thai baht exchange rate was stable at the THB 35.10 level. Given this fact, it can be considered that the exchange rate was acceptable for the BOT. However, even after the exchange rate fell below THB 35.00 against the U.S. dollar, there has been no remark to express any concern made by the Thai monetary authorities. Governor of the BOT Veerathai Santiprabhob and Financial Minister Apisak Tantivorawon have made remarks accepting capital inflow into Thailand, a factor for the appreciation of the Thai baht, encouraging market participants to buy the Thai baht. According to the weekly data on the foreign currency reserves of the BOT, the reserves that had been continuing to increase since the beginning of the year have hit a ceiling in July. If the appreciation of the Thai baht is rapid, it is possible for the central bank to intervene actively in the market by buying the U.S. dollar. However, the appreciation of the Thai baht has recently been slow. Therefore, it will be a competition between capital inflow into Thailand and the patience of the BOT. It is important to observe any action taken by the BOT when the U.S. dollar/Thai baht exchange rate approaches THB 34.70, as this has been the low since the beginning of the year.

Takashi Miyachi, Asia & Oceania Treasury Department

Malaysian Ringgit – August 2016

Expected Ranges	**Against the US$:**	**MYR 4.00–4.20**
	Against the yen:	**JPY 24.00–26.20**

1. Review of the Previous Month

The U.S. dollar/Malaysian ringgit exchange market opened trading in July at the upper-MYR 4.01 level. Even though market participants were selling the Malaysian ringgit due to the victory of Brexit supporters at the referendum in the U.K., the market stabilized again thereafter and the Malaysian ringgit rallied. At the beginning of July, the U.S. dollar/Malaysian ringgit exchange rate had reached the lower-MYR 3.98 level.

Thereafter, the Malaysian ringgit remained stable, thanks to the strength of the crude oil market as well as expectations for capital inflow that resulted from possible measures of monetary easing to be taken by the central banks of major countries. However, risk-averse sentiment grew again on July 5, while market participants sold the Malaysian ringgit for the purpose of profit-taking before the holidays of Hari Raya. As a result, the U.S. dollar/Malaysian ringgit exchange rate fell to the upper-MYR 4.02 level. On July 6 and 7, the onshore market was closed due to the holidays of Hari Raya. After the consecutive holidays, the U.S. dollar/Malaysian ringgit exchange rate continued calling to the mid-MYR 4.04 level on July 8, as market participants reacted negatively to concerns related to Italian financial institutions as well as financial issues in South Europe.

The June employment statistics of the U.S. had been released during the weekend with strong figures. However, this did not lead the U.S. interest rates to rise, and market participants sold the U.S. dollar on July 11. As a result, market participants bought the Malaysian ringgit against the U.S. dollar at the beginning of the week, after the weekend. Thereafter, market participants continued selling the U.S. dollar, and the U.S. dollar/Malaysian ringgit exchange rate rose to the mid-MYR 3.96 level. Then, on July 13, the central bank of Malaysia unexpectedly decided to cut the interest rate at its monetary policy meeting for the first time in approximately seven and a half years. The policy interest rate was cut by 25 basis points from 3.25% to 3.00%. Even though market participants sold the Malaysian ringgit immediately after this decision, capital inflow continued from overseas investors. As a result, the Malaysian ringgit continued appreciating and the U.S. dollar/Malaysian ringgit exchange rate temporarily reached the lower-MYR 3.93 level on July 14.

In the middle of the month, market participants bought the U.S. dollar due to the emergency caused by the *coup d'état* in Turkey that happened at the end of the previous week. Thus, the U.S. dollar/Malaysian ringgit exchange market opened with a gap from the closing rate of the previous week at the upper-MYR 3.97 level. Furthermore, on the same day, the calculation logic for the Malaysian ringgit fixing rate was changed, although this did not impact the exchange market in any particular way. Thereafter, the crude oil price depreciated slightly and the U.S. interest rates appreciated, which led the Malaysian ringgit to depreciate against the U.S. dollar to the MYR 4.04 level. On July 20, the June Consumer Price Index of Malaysia was announced, and the result was lower than expected in the market. However, the reaction in the market to this result was limited. On July 21, the Singapore monetary authorities froze the assets of 1MDB after the investigation, which led the Malaysian ringgit to continue depreciating, and the U.S. dollar/Malaysian ringgit exchange rate reached the lower-MYR 4.07 level.

In the last week of July, the Malaysian ringgit continued weakening along with the depreciation of the crude oil price, and on July 25, the Malaysian ringgit reached its monthly low against the U.S. dollar at the mid-MYR 4.09 level. Thereafter, market participants sold the U.S. dollar after the FOMC meeting, and the Malaysian ringgit rallied to a certain extent. In the end, the U.S. dollar/Malaysian ringgit exchange market closed at the mid-MYR 4.06 level.

2. Outlook for This Month

It is difficult to say that economic conditions in Malaysia have been healthy. First of all, the May trade balance was released with a decreased trade surplus, falling to the lowest level since July 2015. Furthermore, industrial production has been low, gradually showing the deterioration in economic conditions in Malaysia, which had been anticipated for a while.

It should also be mentioned that the impact on Malaysia of the U.K.'s exit from the EU would be slightly more significant than on other Asian countries. Malaysia's exports to the EU are particularly large among Asian countries, and the Malaysian economy is highly dependent on exports. Thus, the Brexit is likely to impact Malaysia negatively in terms of trade. It is of course unlikely for the negative impact to be visible in the short term. However, the slowdown in exports may gradually affect business sentiment in the times ahead. Thus, in general, the issues related to the Brexit are likely to negatively impact the Malaysian ringgit exchange market.

On the other hand, in the middle of July, the central bank of Malaysia carried out an interest rate cut for the first time in approximately seven and a half years. In its statement, the central bank pointed to economic downside risks that resulted from the U.K.'s exit from the EU, while its general overview on the domestic economy was kept unchanged. The statement also included concerns for economic deterioration caused by declining demand in major export destinations as well as the uncertainty of the global economy.

The decision to cut the interest rate taken by the central bank of Malaysia this time was a pre-emptive measure. In general, an interest rate cut by the central bank will lead the currency to depreciate. However, this time, the interest rate cut encouraged market participants to buy the Malaysia ringgit with expectations for the improvement of business sentiment, as was the case of the interest rate cut carried out in the previous month. Even though it is too early to see this as a sign that Malaysia has entered an actual phase of interest rate cuts as per other Asian countries, it is not difficult to deny the possibility for the central bank of Malaysia to cut the interest rate again in the times ahead, as the latest Consumer Price Index of Malaysia has also been on a decline.

The economic conditions have been deteriorating, and the crude oil prices have been on a decline again. Given such circumstances, the Malaysian ringgit is expected to remain weak in this month. However, the depreciation of the Malaysian ringgit is likely to be limited, as an interest rate cut by the central bank of Malaysia is taken positively in the market as a measure to keep business sentiment from deteriorating, rather than as a reason for the depreciation of the Malaysian ringgit.

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

Indonesian Rupiah – August 2016

Expected Ranges	**Against the US$:**	**IDR 13,000–13,500**
	Against 100 rupiah:	**JPY 0.76–0.82**
	Against the yen:	**IDR 123.81–131.00**

1. Review of the Previous Month

The U.S. dollar/Indonesian rupiah exchange rate fluctuated within a narrow range in July.

Due to the Lebaran holidays (festivities after the fasting period) this year, the market actually opened on July 11 (the market was closed from July 5 until July 8). The U.S. dollar/Indonesian rupiah exchange market remained within a narrow range between IDR 13,050 and IDR 13,150.

After the decision on the Brexit taken in the second half of June, security investment capital inflow into Indonesia accelerated, thanks to the tax amnesty program announced by the government. However, the market stabilized for the time being after the Lebaran holidays. Despite this, security investment capital inflow into Indonesia has been continuing steadily, and the Jakarta Stock Price Index reached its high for the first time in one year and one month in the second half of July. The 10-year government bond yield also approached 7%—the lowest level (highest price) in approximately one year and six months.

It should also be mentioned that the foreign currency reserves as of the end of June show a significant increase from the previous month, although this did not impact the Indonesian rupiah exchange market significantly. Furthermore, the central bank of Indonesia (BI) had its regular meeting and decided to keep the interest rate at the existing level, although some market participants were expecting an interest rate cut. It is considered that the central bank decided not to change the interest rate, given that the policy interest rate will be changed to the seven-day reverse repo rate from the next meeting (scheduled for August 19).

2. Outlook for This Month:

The U.S. dollar/Indonesian rupiah exchange rate is forecast to fluctuate at the lower-IDR 13,000 level in August.

As the turbulence after the Brexit referendum has passed, the Indonesian rupiah exchange market has been stable partially also thanks to the tax amnesty program. However, the U.S. dollar/Indonesian rupiah exchange rate has not fallen below the IDR 13,000 mark. On the other hand, with regard to the outlook for the monetary policy of the U.S., which will be the major factor in the exchange market in the times ahead, many market participants see an interest rate hike unlikely in the near future. Therefore, it is difficult to expect the U.S. dollar to remain strong.

Therefore, there will be few decisive factors in the U.S. dollar/Indonesian rupiah exchange market in the times ahead, and thus the U.S. dollar/Indonesian rupiah exchange rate may continue fluctuating at the lower-IDR 13,000 level for a long time.

Yoichi Hinoue, Manila Branch

Philippine Peso – August 2016

Expected Ranges	**Against the US$:**	**PHP 46.00–47.60**
	Against the yen:	**JPY 2.06–2.20**

1. Review of the Previous Month

The U.S. dollar/Philippine peso exchange rate did not move into any direction in July, fluctuating at around PHP 47.

In the onshore market, the U.S. dollar/Philippine peso exchange market opened trading at exactly PHP 47.00.

The market digested the negative impact of the Brexit referendum unexpectedly rapidly, and the Philippine peso appreciated sharply against the U.S. dollar at the beginning of the month (to the PHP 46.70 level) with growing expectations for the new government under new president Rodrigo Duterte, formed at the end of June.

However, there were no active transactions thereafter, as the U.S. market was closed on Monday, July 4 and the Philippine market was closed on Wednesday, July 6, as that day was a holiday after the fasting period, while the June employment statistics of the U.S. were scheduled to be out on Friday, July 8. As a result, market participants reacted negatively to the facts that U.K. real estate funds halted transactions and that the stock prices of U.K. banks depreciated. With the deterioration of market sentiment, the market participants bought back the U.S. dollar on July 8, and the U.S. dollar/Philippine peso exchange rate reached the PHP 47.10 level.

After the release of the June employment statistics of the U.S., the U.S. dollar/Philippine peso onshore market opened on July 11, with market participants buying the U.S. dollar. On July 12, market participants continued buying the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate temporarily reached PHP 47.50. Due to the result of the employment statistics of the U.S., it seems that market participants with actual demand (importing companies) that were concerned with the risks of the appreciation of the U.S. dollar took hedging measures at an early stage before the middle of the month, when there will be a concentration of settlements.

Thereafter, risk-taking sentiment grew in the market with the appreciation of global stock prices as well as the appreciation of U.S. interest rates. Following this trend, the upward pressure on the Philippine peso strengthened in the U.S. dollar/Philippine peso exchange market. On July 15, the Philippine stock price exceeded 8,000 points for the first time since April 2015, and the weekly trading of Philippine stocks by overseas investors (from July 11 to July 15) turned out to be a high-net purchase at PHP 7.4 billion. The U.S. dollar/Philippine peso exchange rate fell below PHP 47 again, and the weekly trading closed at the PHP 46.80 level on July 15.

In the week commencing on July 18, risk-taking sentiment remained in the market, as was the case in the preceding week. While it was thus likely for the Philippine peso to appreciate, market participants bought back the U.S. dollar before key events such as meetings scheduled at the ECB, FOMC, and the Bank of Japan, as the Philippine monetary authorities tend to avoid the rapid fluctuation of exchange rates. Before the FOMC meeting, the U.S. dollar/Philippine peso exchange rate recovered to PHP 47. The U.S. dollar/Philippine peso exchange market is likely to follow the result of the FOMC meeting (as of 8:00 am on July 28, local time).

2. Outlook for This Month

It has been said that August will be a "ghost month," with few market activities in the Philippines as well.

Under such circumstances, key factors in the coming month include the U.S. interest rates and the Philippine stock market.

At the FOMC meeting held on July 27, the policy interest rate was maintained at the existing level.

The FOMC statement mentioned the improvement of the real economy of the U.S., a decrease of short-term risks in the economic outlook, and the upward revision of personal consumption and employment outlook, thus demonstrating a relatively optimistic attitude.

As it is still possible for the interest rate to be raised in September, the U.S. dollar was bought in major currency exchange markets at first instance. However, market participants sold the U.S. dollar thereafter.

Even though the fact that the possibility for a future interest rate hike is a factor leading the Philippine peso to depreciate, this result had been already anticipated in the market.

Also, the stock market in the Philippines rose to the 8,000-point level for the first time since April 2015.

Philippine stock transactions by overseas investors recorded a net purchase for the ninth consecutive week. The Philippine stock market may renew its all-time record in terms of the closing rate, at 8,127.48 points, in the times ahead.

Overseas investors continue buying Philippine stocks. Market participants should observe whether the stock market will remain stable at the 8,000-point level.

However, it is also likely for stock prices to renew their all-time high and to start depreciating due to the sense of achievement thereafter, as well as the lack of market activities during the summer period, which would encourage market participants to sell the Philippine peso for the purpose of profit-taking.

Indeed, market participants have already been selling the Philippine peso for the purpose of profit-taking before the stock prices reach their all-time high. Thus, the appreciation of Philippine stock prices has been slow and uncertain.

With regard to the Philippine peso interest rate market, the one-month foreign exchange swap market interest rate once fell by nearly 1 percentage point due to growing pressure to procure U.S. dollars after the Brexit referendum. However, the short-term interest rates have almost returned to the level before the Brexit referendum, and the interest rate market has currently been stable.

Financial circles reacted positively to the policy speech for the new government under the new president, Rodrigo Duterte.

Even though it is impossible to resist the global trend of risk-taking or risk-aversion, the Philippine peso is forecast to appreciate against the U.S. dollar, as long as the market remains stable (as of 8:00 am on July 28, local time).

Tatsuaki Kihara, Asia & Oceania Treasury Department

India Rupee – August 2016

Expected Ranges	**Against the US$:**	**INR 66.00–68.50**
	Against the yen:	**JPY 1.50–1.59**

1. Review of the Previous Month

The U.S. dollar/India rupee exchange market opened at the mid-INR 67 level in July. After that, market participants bought the India rupee, and the exchange rate fell below INR 67 to the U.S. dollar. However, the U.S. dollar/India rupee exchange rate remained within a narrow range at the lower-INR 67 level thereafter.

On June 18, the media reported that Governor of the Reserve bank of India (RBI) Raghuram Rajan would resign from his post on September 4, when his three-year term will end. In reaction to this news, the India rupee depreciated against the U.S. dollar and the exchange rate approached INR 68. Furthermore, the referendum in the U.K. revealed the victory of the Brexit supporters, which led the U.S. dollar/India rupee exchange rate to the INR 68.2 level.

Thereafter, the exchange market stabilized slowly, and market participants started buying the India rupee as well. This trend continued in July. The impact of the Brexit referendum gradually weakened, and risk sentiment recovered globally and stock prices appreciated again. Under such circumstances, market participants bought back the India rupee, and the U.S. dollar/India rupee exchange rate returned to the INR 66 level on July 14. Thereafter, the U.S. dollar/India rupee exchange rate hovered around at the lower-INR 67 level.

With regard to economic indices, the May Industrial Production of India and the June Consumer Price Index (CPI) of India were released on July 12 after market closing in India. While Industrial Production recorded positive growth of 1.2% year-on-year, significantly better than the market estimate (-0.3% year-on-year), the figure remained low. Furthermore, the April figure announced in June was revised downward. The CPI turned out to be +5.8%, as had been expected in the market. As this was the same level observed in the preceding month, the reaction in the market was minimal.

The key factor is whether the Goods and Service tax (GST) will be approved in the parliamentary session, which has started from July 18.

2. Outlook for This Month

In August, the U.S. dollar/India rupee exchange market is likely to follow external factors, such as the outlook for the U.S. interest rate hikes, as has been the case so far. In addition, market participants will be interested in the successor of Governor of the Reserve Bank of India Raghuram Rajan, as well as discussion about the GST at the parliament.

With regard to the successor of Raghuram Rajan, the media reported that it would be a person who focuses on economic growth rather than the control of inflation due to pressure from the government, whereas current Governor Raghuram Rajan was known to be an inflation fighter. If this turned out to be the case, it would strengthen downward pressure on the India rupee.

The crude oil price has hit the ceiling, and even though the monsoon season has started later than on average years, the weather conditions have been favorable for monsoons. As the crude oil price and the monsoon season are both influential on the Indian economy and inflation, market participants should observe these carefully.

In general, the Indian economy is led by domestic demand, and therefore the impact of the Brexit referendum on India is not likely to be as significant as on other Asian countries. As the monsoon is forecast to be severer this year than on average years, the salaries of public service personnel will be raised in August according to the advice given by the seventh Pay Commission. Therefore, household consumption is likely to increase gradually. As long as inflation remains under control, it is possible for the RBI to cut the interest rate. Thus, the India rupee is expected to remain relatively strong in the coming month.