Mizuho Dealer's Eye

November 2016

Mizuho Bank, Ltd.

Forex Department

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U.S. Dollar – November 2016

Expected Ranges Against the yen: JPY103.00–108.00

1. Review of the Previous Month

In October, the dollar/yen pair strengthened on rising U.S. interest rates. It opened the month trading at the mid-101 yen mark on October 3. It then appreciated early October. U.S. long-term interest rates and the currency pair both rose on the bullish results of the September Manufacturing and Non-manufacturing ISM Reports on Business (released October 3 and October 5, respectively). The pair broke through the 'cloud' in the daily Ichimoku Kinko Hyo trading chart to hit 104 yen on October 6. It then dipped to 102 yen on October 7 on the lackluster results of the U.S. employment data for September. However, with European stocks and crude oil futures moving firmly at the start of the next week, the pair rose above the upper limit of the daily Ichimoku Kinko Hyo 'cloud' to return to the upper-103 yen level on October 10. It then moved in a range mid-October as market participants focused on the upper limit of the daily Ichimoku Kinko Hyo 'cloud' (103.51 yen). With the minutes to the September 20–21 FOMC meeting set for release, the pair rose to the mid-104 yen mark on October 12 on concerns that the minutes would strike a hawkish tone. In the end, the minutes mentioned that "some participants believed that it would be appropriate to raise the target range for the federal funds rate relatively soon." In contrast to market expectations, though, the minutes did not mention a rate hike in December nor several rate hikes in 2017. As a result, the pair dropped back to the lower-104 yen level. Risk aversion intensified on October 13 after China's trade statistics for September revealed that the import and export data had both dropped below prior forecasts. The currency pair fell to the mid-103 yen mark, but this did not lead to further declines. It fell to the lower-103 yen level on October 19 on speculative reports that the Bank of Japan's Monetary Policy Committee (MPC) would not ease further when it met in November, though this reaction was short-lived. Hillary Clinton got the upper hand at the 3rd televised presidential debate on October 20, as she had done at the previous two, though the impact on the markets was muted. The currency pair rose again late October. On October 21, the pair fell temporarily to the upper-103 yen mark after former Bank of Japan (BOJ) board member Sayuri Shirai commented that the BOJ would find it hard to expand its EFT purchases. The Markit Flash U.S. Manufacturing PMI was released on October 24, with the pair climbing to the lower-104 yen level on the bullish results. In his testimony to the UK House of Lords on October 25, Bank of England (BOE) governor Mark Carney said "there are limits to the MPC's willingness to look through an overshoot of inflation [due to the weak pound]." With the markets moving erratically on pound movements in the wake of this comment, the dollar/yen pair weakened. With interest rates rising globally from the following day onwards, though, the currency pair rose again on bullish U.S. and European long-term interest rates, with the pair hitting a monthly high of 105.54 yen on October

28. However, it then dipped temporarily to the mid-104 yen mark on news that the FRB had reopened its investigation into Hillary Clinton's use of a private email server. It fell to the lower-104 yen level on October 31, but it subsequently rebounded to close the month at the upper-104 yen level.

2. Outlook for This Month:

The dollar/yen pair is expected to move firmly this month as the markets assimilate major events like a rise in interest rates on expectations for a U.S. rate hike within 2016, for example, or the U.S. presidential election. The first thing to examine is U.S. monetary policy. U.S. economic indicators are moving quite strongly at present, while several FRB officials have made hawkish comments. As a result, market bets on a December FOMC rate hike have risen from around 50% at the end of September to around 70% now. Judging from comments by FRB officials, it seems a majority of FOMC members support a 2016 rate hike or believe such a move would be justified, so if the indicators, etc. continue to suggest the U.S. economic recovery is on track, a December rate hike will start to look like a foregone conclusion. While monitoring the performance of economic indicators, from here on the markets are likely to grow more confident about the possibility of a December rate hike. This 'composed assimilation of economic indicators' will probably support the movements of the dollar/yen pair. At the same time, the FOMC is expected to hold off from raising rates when it meets over November 1–2. A number of members made specific comments about policy changes at the November meeting. These include FRB Chair Janet Yellen, Cleveland FRB President Loretta J. Mester, Chicago FRB President Charles Evans and Richmond FRB President Jeffrey M. Lacker. If anything, though, these were read as merely general insistences that the FOMC should retain the freedom to alter policy at any meeting. At the end of the day, with Yellen not scheduled to hold a press conference after the November meeting, it seems unlikely that the FOMC will implement a rate hike this time around. Nonetheless, the FOMC's November statement and the votes for and against a rate hike will once again prompt the markets to price in a December rate hike. Meanwhile, U.S. voters will finally be voting for their next president on November 8. The Democratic Party candidate Hillary Clinton emerged as the winner of the televised debates held over the past few months, but the issue of the private email server (Clinton's Achilles' heel) has reared up again. Though Clinton won the TV debates, no candidate has taken a decisive lead in the opinion polls and both have similar approval ratings, so uncertainty has risen of late. Voters are likely to play it safe when they finally get to the polls, so the main scenario is one of a Clinton victory. This will probably support the dollar/yen pair. With regards to policy stances, Clinton is also a supporter of curbing dollar bullishness, but risk assets would probably react positively to her election, particularly given the uncertainty shrouding the policies of her rival, as epitomized by the phrase 'Trump Risk.' The dollar/yen pair is likely to be bolstered as the markets slip into risk-on mode. In summary, the currency pair is expected to move firmly this month as uncertainty about the presidential election is wiped away and a December FOMC rate hike grows more likely.

Dealers' Market Forecast

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

Bullish on the dollar (5 bulls: 102.00–108.00, Core: 103.00–108.00)

Fujisaki	102.00 – 108.00	The U.S. presidential election will pass smoothly. There are lingering expectations for an FRB rate hike, while Japanese investors will continue to buy foreign currencies in relation to M&As and portfolio investments, so market participants will try pushing the dollar/yen pair back in a bearish yen direction again. The pair has traded in a range around par value for a long time now. This deadlock may grow more pronounced.
Kato	103.00 – 108.00	As the TPP negotiations and the U.S. presidential elections are put to bed, the Japanese authorities will no longer need to fret unnecessarily about yen bearishness. In October, the markets will focus once more on the willingness of the Japanese authorities to tolerate yen bearishness in the run up to the expected U.S. rate hike in December, provided this bearishness proceeds at a gentle pace.
Takada	102.50 – 107.00	The dollar/yen pair is likely to move firmly until the December FOMC meeting as expectations for a rate hike grow on bullish U.S. economic indicators and hawkish comments by FRB officials. The markets have more-or-less priced in a December rate hike, though. With the U.S. presidential election also looming, the pair is unlikely to climb sharply.
Nishitani	103.00 – 108.00	If the U.S. presidential election passes smoothly, U.S. economic indicators will continue to move bullishly. A consensus is forming in the markets that the FRB will lift rates in December. The dollar is likely to continue moving firmly until a rate hike is actually implemented.
Tsuruta	103.00 – 107.00	The dollar will probably be bought on growing expectations for a rate hike at the December FOMC meeting. If the FOMC keeps rates fixed in November and Hilary Clinton wins the U.S. presidential election, market concerns will drop off. Under these circumstances, there will not be much active dollar selling, with the greenback actually bought in anticipation of a U.S. rate hike within the year.

Bearish on the dollar (6 bears: 100.00–106.50, Core: 101.00–106.00)

Yamashita	100.00 – 106.00	The markets have been quick to factor in a Clinton presidency and an FRB rate hike in December, so even if these events do come to pass, this will probably not lead to more dollar buying. As such, there will be no change to the trend of dollar bearishness and yen bullishness that has prevailed since the start of the year.
Yano	101.00 – 106.00	There are a number of events lined up in November, including the BOJ MPC meeting, the FOMC meeting and the U.S. presidential election, but these are not expected to spring any surprises. Speculation about a December U.S. rate hike is smoldering away, but the markets have more-or-less factored in such a move, so the dollar will only have limited room to appreciate on this theme. If fact, the yen could rise in reaction to excess dollar buying, so caution will be needed.
Sato	100.50 – 106.50	The markets have finished pricing in a rate hike at the December FOMC meeting, so the dollar/yen pair's room on the topside is probably limited. The Dollar Index rose sharply in October and there are concerns about the impact of this on U.S. manufacturing. Under these circumstances, if the U.S. posts some worse-than-expected economic indicators, the pair will face downside risk due to the dollar's vulnerable downside.
Nishijima	101.00 – 106.50	The markets have substantially factored in a further U.S. rate hike this year and a Clinton victory in the U.S. presidential election. Under these circumstances, dollar bullishness could unwind on a sense that a number or major events are out of the way. Market participants are awaiting the results of the presidential elections, but with both candidates voicing their desire to curb dollar appreciation, the dollar/yen pair will probably be pushed lower whatever the result, so precautions will be needed.
Shimoyam a	102.00 – 106.00	With the Dollar Index rising to just below 100, concerns about dollar appreciation are growing quite strong. It seems the markets have factored in a December U.S. rate hike, so market participants should be more on guard in case some negative factors lead to an unwinding of dollar long positions. The dollar/yen pair will trade with a heavy topside and market participants should also keep a close watch on its lower price.
Moriya	101.00 –	The markets have already factored in a December rate hike to a considerable extent, so even if the results of November's economic indicators lend support to such a move in December, any dollar/yen pair bullishness will probably be capped.

	106.00	When the pair does rise, this will generate substantial appetite for selling among Japanese exporters and so on, so the pair will probably move with a heavy topside.

Yu Takada, Forex Sales, Forex Department

Euro – November 2016

Expected Ranges **Against the US$: US$1.0605–1.1050**
Against the yen: JPY110.00–116.50

1. Review of the Previous Month

The euro/dollar pair moved bearishly in October.

It opened the month trading at the lower-$1.12 mark on October 3. It then rose to a monthly high of $1.1247 on speculation that the U.S. Department of Justice would reduce the fine it imposed on Deutsche Bank. Its topside was capped, though, and it dropped to the lower-$1.11 level on October 4 after the greenback was bought on the bullish results of the September Manufacturing ISM Report on Business. It then shot back to the lower-$1.12 level on reports that the ECB could start tapering its quantitative easing (QE) package in the near future. It continued floating at this level over October 5. On October 6, though, the pair fell to the lower-$1.11 range when the euro was sold after ECB Vice President Vitor Constancio poured cold water on reports about tapering. The dollar was sold on October 7 after the U.S. released some worse-than-expected employment data for September, with the currency pair rising to $1.12. However, it then dropped to upper-$1.11 level after the dollar was bought back on rising U.S. interest rates.

With the Tokyo and NY markets on holiday on October 10, the pair edged down to the lower-$1.11 mark. The pound then crashed on October 11 on concerns about a so-called Hard Brexit, whereby the UK would leave the EU without retaining access to the single market. The euro/dollar pair was also dragged down to the mid-$1.10 mark. It continued sliding over October 12–13. It broke below the psychologically-important $1.10 mark to drop to the upper-$1.09 level. A sense of accomplishment at this level then saw the pair recovering to the lower-$1.10 range, though it dipped back to the upper-$1.09 mark as expectations for a 2016 FRB rate hike grew on the robust results of the September U.S. retail sales data, released on Friday, October 14.

The pair rallied to $1.10 on October 17 as the markets reacted warmly to the bullish results of the eurozone Harmonised Index of Consumer Prices (HICP) for September. However, it then dipped to the upper-$1.09 level on October 18. With the ECB Governing Council meeting looming on October 20, the euro was sold on expectations for further easing, with the currency pair dipping to the mid-$1.09 mark on October 19. The ECB Governing Council left monetary policy unchanged when it met on October 20, but the pair soared to the lower-$1.10 level after Mario Draghi's press conference, with the ECB president revealing that the council had not discussed extending the timeframe of its QE package. He also said there had been no discussion about tapering, though, and he dropped hints about further easing at the next meeting. As a result, the euro dipped back and the pair fell to the lower-$1.09 level. It continued moving bearishly on Friday, October 21, when it fell to the upper-$1.08 level.

It moved with a lack of incentives at the same level over October 24, but it then plunged to a monthly low of $1.0851 on October 25 on concerns about a Hard Brexit and hawkish comments by a regional FRB chief. It then rallied and it edged up over October 26–28. It bounced back to the upper-$1.09 mark and then finished the month moving at the $1.09 range on October 31.

2. Outlook for This Month:

The euro/dollar pair is expected to trade with a heavy topside in November.

Expectations for a U.S. rate hike rose last month on generally-bullish U.S. economic indicators and hawkish comments by FRB officials. As a result, the dollar rose against the euro and the other major currencies. The euro was also sold on concerns about a Hard Brexit together with speculation that the ECB would strengthen its easing stance by revising the parameters of its extended asset purchasing program (by extending the timeframe, for example). All this saw the euro/dollar pair falling to the mid-$1.08 mark, its lowest point in around seven months.

The ECB Governing Council is not scheduled to meet this month. Market participants will probably focus on the eurozone's economic indicators as they try to gauge the likelihood of further ECB easing in the run up to the next Governing Council meeting on December 8. The euro is likely to swing up and down on the mixed results of eurozone indicators such as the September unemployment rate (released November 3), the September retail sales data (November 7), the revised GDP data for July–September (November 15), the revised October HICP (November 17), and the preliminary November HICP (November 30). Particular attention should be paid the release of the HICPs on November 17 and November 30, respectively. Germany released its preliminary CPI data for October at the end of last month. This rose by 0.7% on the previous year, the fastest growth since October 2014. It seems the impact of the ECB's monetary easing policies is starting to make itself felt, but the eurozone's preliminary HICP figure for October only hit +0.5% year-on-year, down substantially on the ECB's target of +2.0%. If the bearishness of the HICP is confirmed, this will probably lead to growing expectations for further ECB easing, with the euro/dollar pair moving with a heavy topside as a result. If other indicators also point to the weakness of the eurozone economy, the euro will probably be sold as market participants focus on falling expected inflation rates. The pair's downside will also be tested if ECB officials drop comments about expanding the scale, timeframe or targets of the ECB's asset purchasing program, all moves conducive to further easing.

Outside the eurozone, meanwhile, the major theme remains U.S. monetary policy. If the dollar is bought as robust U.S. economic indicators lead to rising expectations for an FRB rate hike, the euro/dollar pair will probably slide. However, the markets have already priced in a 70–80% chance of a rate hike in December, while there is no conclusive proof that the FOMC will continue to hike rates thereafter, so the pair's downside may be capped. The closely-watched U.S. presidential election will also take place in November. There are concerns the markets may move erratically on growing concerns about the results, with the frontrunner Hillary Clinton rocked by a scandal involving a private email server, for instance. In the mid-term, though, the euro may be supported by some unwinding to the trend of dollar buying, so caution will be needed.

Dealers' Market Forecast

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

Bullish on the euro (4 bulls: 1.0700–1.2000, Core: 1.0800–1.1300)

Yamashita	1.8000 – 1.1200	There were concerns about the financial results of Europe's banks, but these beat market expectations in the end. With the eurozone's economic indicators also moving stably at low levels, there do not appear to be any euro-selling factors lined up this month. The markets have also factored in an FRB rate hike, so it is hard to imagine the dollar rising and the euro falling further.
Sato	1.0850 – 1.2000	With some voices speaking out about the damage caused by excessive monetary easing, expectations for further ECB easing are unlikely to rise. Also, the markets have finished factoring in a U.S. rate hike, so the gap between U.S. and European monetary policy is unlikely to widen and the euro/dollar pair looks set to move firmly.
Nishijima	1.0800 – 1.1300	Concerns about low inflation are smoldering away in the eurozone, but as firm business sentiments suggest, economic movements do not seem to be marked by growing pessimism, even after the Brexit vote. The ECB has denied reports about tapering, but comments by high-ranking officials and so on suggest the ECB is pulling back from its prescribed path of further easing. This will probably support the euro/dollar pair.
Shimoyama	1.0700 – 1.1300	It seems the ECB wants the onus to shift from further easing (the ECB) to fiscal policy (eurozone governments). The eurozone has the world's largest current account surplus, so under these circumstances, the euro looks set to move firmly this month. Furthermore, with the Dollar Index rising to just under $100, concerns about dollar appreciation are growing quite strong, so the euro may rise on the back of dollar selling.

Bearish on the euro (7 bears: 1.0450–1.1100, Core: 1.0600–1.1100)

Fujisaki	1.0500 – 1.1100	The euro/dollar pair's topside will probably be weighed down by uncertainty about Brexit, the financial problems of a major German bank, and the bad debt problems of Italy's major banks. Expectations for an FRB rate hike within this year remain firm, so providing U.S. economic indicators or the presidential election do not lead to market turmoil, the dollar will continue to be bought. Technically speaking, the pair will move quite firmly at $1.05.
Kato	1.0450 – 1.1050	With an Italian referendum looming at the start of December, it will still take some time before uncertainties in the eurozone are wiped away. The situation in the UK is fraught with more risk, so the euro is expected to move comparatively firmly against the pound, but the single currency will be difficult to buy against other currencies.
Yano	1.0600 – 1.1100	Uncertainty is rising on the financial travails of Europe's financial institutions together with ongoing concerns about Brexit. Under these circumstances, market participants will refrain from any active euro buying. Though the markets have factored in a U.S. rate hike to a certain extent, this could still act as a factor holding down the euro/dollar pair's topside. On the whole, the pair is likely to continue trading with a heavy topside.
Takada	1.0650 – 1.1050	The euro/dollar pair is likely to move with a heavy topside on: speculation about further ECB easing; and growing expectations for U.S. rate hikes on the back of firm economic indicators.
Nishitani	1.0600 – 1.1100	Though it is premised on the U.S. presidential election passing smoothly, a consensus is forming that the FRB will lift rates in December. Under these circumstances, the dollar is likely to continue moving firmly. At the same time, there are deep-rooted expectations that the ECB Governing Council will introduce further easing in December, including extending its QE program. The euro/dollar is expected to swing lower on these divergent monetary policies.
Moriya	1.0600 – 1.1100	Market participants are keenly aware of uncertainties in the eurozone, such as Brexit and the financial problems of Europe's banks. As a result, market participants will find it hard to actively buy the euro. At its meeting in October, the ECB Governing Council hinted it would stick to an easing stance going forward.

		This is also likely to weigh down the euro/dollar pair’s topside.
Tsuruta	1.0600 – 1.1050	The euro is likely to be sold on dollar movements. Concerns about tapering have also eased off after ECB President Mario Draghi suggested the ECB would continue to pursue monetary easing, with European monetary policy showing signs of composure. Under these circumstances, the dollar is expected to move firmly in the near future on rising expectations for a 2016 U.S. rate hike, with the euro moving bearishly as a result.

HyoJung Chang, Europe Treasury Department

British Pound – November 2016

Expected Ranges	**Against the US$:**	**US$1.2000–1.2700**
	Against the yen:	**JPY127.00–135.00**

1. Review of the Previous Month

Amid growing fears of a Hard Brexit, in October the pound/dollar pair temporarily crashed to its lowest level since 1985. Sterling moved sensitively and erratically in reaction to comments by Prime Minister Theresa May and Brexit news.

The pair opened the month trading at $1.2932. However, fears about a Hard Brexit grew on the back of Theresa May's speech at the Conservative Party conference, with the Prime Minister stating that "We will invoke Article Fifty [of the Lisbon Treaty] no later than the end of March next year...we are not leaving the European Union only to give up control of immigration again. And we are not leaving only to return to the jurisdiction of the European Court of Justice." As a result, on October 7, the pair crashed to a 31-year low of $1.1144 before recovering to $1.2432 by close of trading.

The pair remained bearish in the second week and it fell to $1.21. On October 14, the U.S. Commodity Futures Trading Commission (CFTC) released its IMM currency futures report. This confirmed that investors in the non-commercial sector were still expanding their pound short positions, with pound shorts continuing to accumulate to record high levels.

The UK CPI data for September was released in the third week. This hit its highest level since November 2014, but the impact on the markets was limited. However, the currency pair then jumped temporarily to $1.23 on news that that any final agreement on leaving the EU would most likely have to be ratified by the UK parliament. In a press conference after a EU Heads of State meeting on October 21, though, Prime Minister Theresa May said the Brexit negotiations would take time. As a result, the currency pair dropped below $1.22 and then fell to the upper-$1.21 mark.

In the last week, on October 25, Bank of England (BOE) governor Mark Carney told the UK House of Lords that "there are limits to the MPC's willingness to look through an overshoot of inflation." As expectations for a further rate cut in the near future dropped off, interest rates and the pound both rose on October 26. The UK quarter-on-quarter GDP data for July–September was released on October 27. This hit +0.5%, up on forecasts for +0.3%, with the currency pair rising further as a result. In the end, though, the pair failed to recover from the flash crash on October 7 and it closed the month down 10% on its September high.

2. Outlook for This Month:

In November, market participants will continue to pay close attention to Brexit concerns and the direction of Brexit negotiations. The markets will also be focusing more on trends in the run up to the

FOMC's policy rate announcement on December 14. This will probably influence the dollar's movements. Events to watch out for this month include the November 3 release of the BOE's policy rate announcement and Inflation Report, for instance, as well as the November 23 release of the Chancellor of the Exchequer's Autumn Statement on the budget. Also attracting attention will be the general meeting of the Organization of the Petroleum Exporting Countries (OPEC) on November 30.

A glance at last month's speculative positions and a technical analysis suggests there is ample room for a short-term pound rally. However, though the UK's economic indicators have continued to beat forecasts after the Brexit vote, in the mid- to long-term the pound/dollar pair could be sold off further as signs of an economic slowdown start to emerge. Even if the pair rebounds, Brexit uncertainties mean the climate will remain ripe for a renewed accumulation of pound short positions. If this state of affairs continues, the pair will probably trade with a heavy topside. The UK's CPI will continue to face inflationary pressures in relation to pound bearishness and rising crude oil prices. The BOE still has room to lower rates, though, and it will probably stick to its dovish stance, so the pound's topside will remain heavy.

Events that could invite pound bullishness include: a shift of direction from a Hard Brexit to a Soft Brexit; aggressive fiscal expansion by the UK government; or a flurry of global M&As prompted by sterling's weakness.

From a technical perspective, if the pound/dollar pair is supported at the $1.2090 level, it could rise to $1.2445. If it tops $1.2445, if might then target $1.2926. If it drops below the $1.2090 level, though, it could well fall to $1.144, the low it hit on October 7.

Miki Yamaguchi, Sydney Branch

Australian Dollar – November 2016

Expected Ranges	**Against the US$:**	**US$0.7475–0.7750**
	Against the yen:	**JPY77.00–81.50**

1. Review of the Previous Month

The AUD/USD pair floated around USD0.75–0.77 in October.

It kicked off the month trading at the mid-USD0.76 level on October 3. The board of the Reserve Bank of Australia (RBA) kept the base rate fixed when it met on October 4, as expected, so the impact on the currency pair was muted. When the U.S. released some bullish new applications for unemployment insurance data on October 6, the greenback was bought and the pair temporarily fell to the upper-USD0.75 mark. The U.S. then released some worse-than-expected September employment data on October 7, but the data was still strong enough to support a December rate hike, so the pair weakened to the mid-USD0.75 level. It floated around the USD0.75 range entering the following week, but it then dropped to a low of USD0.7506 on October 13 when China released a bearish trade balance for September (with exports falling particularly sharply). It did not fall below USD0.75, though, and it then rebounded to the upper-USD0.75 level.

It rallied to USD0.76 on October 14 on the better-than-expected results of China's September consumer price index (CPI) data and September producer price index (PPI). It rose further the following week to hit the mid-USD0.76 mark on October 18 after RBA Governor Philip Lowe commented that the Australian dollar and interest rates were currently at a good level for the economy. The minutes to the RBA meeting were released the same day and they contained no hints about a further rate cut, so the AUD/USD pair stayed at the same level. China released several key economic indicators on October 19, including the July–September GDP data, the September retail sales figures, the September industrial production result, and the September fixed asset investment data. These were broadly in line with market expectations, though, so the pair floated at the upper-USD0.76 mark. It then rose to the USD0.77 range on the bearish results of the U.S. September Housing Starts data. The Australian dollar remained bullish on October 20 and the currency pair temporarily hit a high of USD0.7735, but it then dropped back to the lower-USD0.76 level after Australia's employment data for September revealed that the number of people in work had fallen by 9,800 (as opposed to forecasts for a 15,000 increase). Australia's CPI data for July–September was released on October 26. It rose 1.3% on the previous year, up on forecasts for a rise in the region of 1.1% year-on-year, so the pair rose to USD0.77. However, the greenback was then bought in overseas markets on bullish U.S. economic data, so the pair dropped back to the USD0.76 range. The U.S. dollar continued to be bought thereafter, with the pair sliding to the upper-USD0.75 mark.

2. Outlook for This Month:

When the RBA board meets on Tuesday, November 1, attention will focus on the board's statement and its decision on whether to cut rates.

Though the Australian inflation data released last month fell below the RBA's target range (of +2–3%), it still hit +1.3% y-o-y, up on expectations for a rise in the region of 1.1% y-o-y. Furthermore, the core inflation rate (= (trimmed mean + weighted median) ÷2) is an indicator the RBA watches closely when implementing policy. This rose by +1.5%, as predicted in the inflation forecast in the RBA's August Quarterly Statement on Monetary Policy. In his statement to the House of Representatives in September, meanwhile, RBA Governor Philip Lowe said the impact of rate cuts had declined in recent years. In a Q&A session after a speech in October, meanwhile, Lowe also commented that the Australian dollar and interest rates were currently at a good level for the economy. As such, the RBA seems in no rush to cut rates further, with the next rate cut likely to take place after the release of the next tranche of CPI data (scheduled for the end of January, 2017) at the earliest.

In its September statement, meanwhile, the FOMC said that although the conditions for a rate hike were evolving, it would wait for further proof. With a U.S. presidential election looming on November 8, the FOMC will probably hold off from lifting rates when it meets over November 1–2. In fact, the FOMC will probably revise the wording of its statement in November in preparation for a rate hike in December, so market participants will be scouring the statement for any changes.

On the technical front, the currency pair will probably be supported at USD0.7475, the 200-day long-term moving average line of its daily chart, while it will meet resistance at the mid-USD0.77 range (its topside has moved heavily at this level these past three months, with its highs for August, September and October capped at USD0.7760, USD0.7732 and USD0.7735, respectively).

With expectations for further easing on the wane in Australia (a factor behind Australian-dollar buying) and the U.S. preparing to lift interest rates (a factor behind U.S.-dollar buying), it will be difficult to discern a sense of direction and the currency pair will probably float between the upper-USD0.74 mark and the mid-USD0.77 level.

Australian indicators to watch out for this month include the RBA board meeting (November 1), the September trade balance (November 3), the September retail sales figures (November 4), the minutes to the RBA meeting (November 15), the October employment data (November 17) and the July–September private-sector capital investment data (November 24). Attention will also be focused on the U.S. presidential election on November 8.

Yukihiro Mitsuno, Americas Treasury Department

Canadian Dollar – November 2016

Expected Ranges	**Against the US$:**	**C$1.3140–1.3580**
	Against the yen:	**JPY76.60–79.20**

1. Review of the Previous Month

The USD/CAD pair opened the month at C$1.3130. The greenback was then bought and the pair rose to C$1.3230 after the September U.S. Non-manufacturing ISM Report on Business (composite) substantially topped prior expectations. Thereafter, the U.S. unit continued to be bought against the major currencies on expectations for a U.S. rate hike before the year's end, with the pair gaining to C$1.3300.

With the NY market on holiday mid-October, the pair dropped to C$1.3140 on a shortage of liquidity. The greenback was then bought against the euro and pound on concerns about a Hard Brexit. With the publication of the FRB's Beige Book also looming, the pair gained to C$1.3273. However, WTI crude oil prices then moved at highs around US$51 after Russia's president Vladimir Putin said Russia was prepared to freeze or even cut production. With the Beige Book also containing no factors particularly conducive to U.S.-dollar buying, the currency pair weakened to C$1.3210. It then rose to C$1.3307 as the greenback was bought when the yield on 10-year treasuries rose. However, the pair met with strong appetite for selling at around C$1.3310, its technical resistance line. With the U.S. retail sales data for September moving flatly and the October Michigan Consumer Sentiment Index dipping below prior forecasts, U.S.-dollar selling intensified and the pair fell temporarily to C$1.3103.

The Canadian dollar was sold over the latter half of October. The USD/CAD pair fell to C$1.3055 on the worse-than-expected results of the October NY FRB Manufacturing Index and the September CPI data (excluding food and energy; month-on-month). The Bank of Canada's Governing Council met on October 19. Some observers were expecting a rate cut, but in the end the Council kept key interest rates unchanged. With crude oil prices also moving firmly, the currency pair fell to a monthly low of C$1.3006. In his subsequent press conference, though, BOC Governor Stephen Poloz struck a dovish tone with comments that "the level of exports is well below where we thought it would be by now" and "the Governing Council actively discussed the possibility of adding more monetary stimulus." The Canadian dollar was sold back as a result, with the pair soaring back to C$1.3142. As market participants continued to sell the Canadian unit, the pair shot up to C$1.3355 on the worse-than-expected results of Canada's August retail sales data (month-on-month) and September CPI data (both released on October 21).

It edged up to C$1.3433 for a time at the month's end before closing at $1.3409, its first sojourn to the $1.34 range in three months.

2. Outlook for This Month:

The USD/CAD pair is expected to move firmly this month. The BOC's Governing Council kept policy rates fixed when it met last month, but with Canada's economic indicators moving weakly, BOC Governor Stephen Poloz has made some dovish comments about the possibility of a rate cut within the year, so the Canadian unit is likely to move bearishly. Furthermore, though the OPEC meeting agreed to cut production in September, the specific details of this plan are unclear and there is still no decision about which countries will cut output. As a result, crude oil prices are likely to move bearishly and this will be a negative factor for the Canadian unit, a commodity currency. Volatility might also increase on negative political surprises related to the U.S. presidential election and a Hard Brexit, so caution will be needed.

At the same time, the greenback is expected to move firmly against the major currencies, including the Canadian dollar. Fed fund futures have priced in a 70% likelihood of an FOMC rate hike on which attention has been focused and there is a growing market consensus that the FOMC will make such a move at its December meeting. With Europe and Japan introducing negative interest rates and the BOC considering a rate cut, the greenback is the only attractive currency from an interest rate perspective, so interest-rate differentials will probably see funds flowing into the U.S. unit.

Tomohiro Yamaguchi, Seoul Treasury Office

Korean Won – November 2016

Expected Ranges	**Against the US$:**	**KRW1,110–1,170**
	Against the yen:	**JPY8.93–9.39 (KRW100)**
		(KRW10.65–11.20)

1. Review of the Previous Month

The dollar/won pair rallied for the first time in five months in October. It expanded its room on the topside throughout the month.

The pair rose at the start of the month. With the overseas markets on vacation, the greenback strengthened after the September U.S. Manufacturing ISM Report on Business beat market expectations, with the U.S. unit also bolstered by positive headlines in relation to Deutsche Bank. As a result, when the markets opened again on October 4, the pair kicked off the day trading at KRW1103.0, though it then fell to a monthly low of KRW1102.2. During European trading time on the same day, news emerged that the ECB was close to reaching an agreement on the need to scale back its quantitative easing (QE) program (the ECB later issued a denial). As expectations for monetary tightening grew, the dollar rose further. With the release of the employment data looming, the pair strengthened to the KRW1117 mark, its level from before the September FOMC meeting.

The pair rose mid-October. It fell for a time on October 10 on the slightly bearish results of the U.S. employment data for September, but it then rose on October 11 after: Samsung, a major South Korean electronics firm, announced it was suspending producing of a new smartphone; and the USD/RMB pair topped it high from July this year. Thereafter, the dollar continued to trend upwards after the minutes to the FOMC meeting were read as being somewhat bearish and China's September trade data fell below market expectations. This saw the dollar/won pair rising to KRW1143.6, its highest level since July this year on October 17. However, the U.S. then posted some generally-weak economic indicators, including the core CPI data for September. Chinese stock markets also moved firmly on expectations for infrastructure investment in advance of the Sixth Plenum of China's Central Committee. As a result, the currency pair's gains were pared back.

The pair rose late October. In his press conference after the ECB Governing Council meeting on October 20, ECB President Mario Draghi said there had been no discussion about extending the ECB's quantitative easing (QE) program, though he also said the Council had not discussed tapering either. Asian currencies moved firmly for a time, but with economic indicators performing strongly, U.S. interest rates climbed on speculation that the preliminary U.S. GDP data for July–September would register an uptick on its release on October 28, so the dollar/won pair rose sharply. The U.S. GDP data was then released and its headline figures topped market expectations. As a result, the pair hit a monthly high of KRW1148.9 on the morning of October 31, up 50.1 won on the end of

September. However, these gains were paired back on end-of-month won buying and news that the FBI had reopened its investigation into Hillary Clinton's private email server, so the pair closed the month trading at KRW1144.5.

2. Outlook for This Month:

In November, the dollar/won pair is expected to move skittishly in advance of the U.S. presidential election and the December FOMC meeting.

Uncertainty about the U.S. presidential election will gradually dissipate, with the recent restraints on dollar bullishness likely to be unwound. The FOMC is also expected to keep monetary policy fixed in November. Market bets on a December rate hike have risen to around 70%, but with market participants expecting rates to be lifted at a gentle pace and FRB Chair Janet Yellen making comments about a 'high-pressure economy,' the financial environment has yet to manifest the kind of tightness seen last year. Furthermore, expectations for an ECB adjustment to monetary easing/QE have been pushed back to December.

Turning to South Korea, and the Bank of Korea (BOK) seems to be more inclined in a dovish direction compared to September. It remains concerned about household debt, which continues to balloon. A further problem is the decision by Samsung to suspend production of a new smartphone. BOK Governor Lee Ju-yeol said this problem has not been factored into the BOK's economic outlook. On October 20, it was reported that Governor Lee had summoned the BOK's executive and officials to an informal meeting about the domestic economy. Though South Korea posted a strong GDP result for July–September, there are concerns about the impact of the Samsung smartphone recall, for instance, as well as a new law introduced late September that cracks down on graft and bans public servants, teachers and journalists from accepting expensive gifts, etc. There have also been demonstrations about the president divulging secret information, so there is a lot of uncertainty on the political front.

In November, the dollar/won pair is expected to move skittishly on speculation about the U.S. presidential election and U.S. monetary policy. It could rise to around KRW1170 for a time, but if these events pass without any significant deterioration in the financial situation, it could also drop to around KRW1110.

Junji Tsujino, Taipei Treasury Office

New Taiwan Dollar – November 2016

Expected Ranges	**Against the US$:**	**NT$31.00–32.00**
	Against the yen:	**JPY3.22–3.48**

1. Review of the Previous Month

The Taiwan dollar continued to face appreciatory pressures at the start of October following the Bank of Taiwan's decision to leave policy rates fixed in September. However, with expectations for a 2016 U.S. rate hike rising and the euro and pound sliding, the U.S. dollar was comparatively stronger, so the USD/TWD pair's movements were marked by some slight Taiwan-dollar bearishness.

The pair began the month trading at the mid-TWD31.30 mark. It then swung to and fro around TWD31.30 over October 3–5. Though the greenback strengthened on the firm results of the September U.S. Manufacturing ISM Report on Business, market participants also focused on fund inflows into Taiwan's stock markets as well as the policy stance of the Bank of Taiwan (BoT), so the Taiwan dollar was not pushed lower. The Korean won moved bearishly from October 5 and the RMB also began sliding. With the Dollar Index also rising on euro weakness, the USD/TWD pair rose to TWD31.40 over October 6–7.

The markets were on holiday on October 10, the first trading day after the release of the U.S. employment data for September. The data dropped below market expectations, but the greenback moved firmly on deep-rooted expectations for a U.S. rate hike within the year. With the RMB also sliding further after China's National Day, the USD/TWD pair rose to the mid-TWD31.60 on October 11. It then rose to TWD31.70 on October 13 as the Korean won and RMB fell further. With the U.S. dollar moving comparatively strongly in the face of euro and pound weakness, the USD/TWD pair strengthened to TW31.80 on October 17. However, it then dropped back to TWD31.70 as the Dollar Index fell on October 18. Despite a dearth of notable factors besides a pound surge, the currency pair then fell sharply to TWD31.40 on October 19. There were no particularly large inflows of cash from foreign investors either, while the Korean won and RMB also moved flatly, so pair's movements did seem somewhat incongruous.

After surging on October 18, the Taiwan dollar faced some correction from October 19 onwards, with the currency pair gaining to TWD31.50 on October 20. With the Dollar Index then rising on further euro weakness, the pair rose to TWD31.60 on October 21.

The bearishness of the pound and euro seemed to take a breather over October 24–28. During this time, the pair continue to float in a range from the upper-TWD31.50 mark to around TWD31.70. It seemed the markets were in wait-and-see mode in the run up to the FOMC meeting and the release of the U.S. employment data at the start of November.

With the markets reacting badly to news that the inquiry into Hillary Clinton's emails had been reopened, the greenback was pulled lower on October 31 and the pair moved at the TWD31.50 mark.

2. Outlook for This Month:

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

A glimpse of Taiwan's economic indicators for September reveals the industrial production and new export orders data showing more signs of sluggishness compared to August. This is seemingly due to the performance of the semiconductor sector, which had moved particularly bullishly in the past but has since slowed slightly after a new range of smartphones went on sale. At +2.06% on the same period last year, Taiwan's GDP data for July–September topped market expectations, but market participants do not seem optimistic about the future. Turning to the stock markets, meanwhile, and though the Taiwan Capitalization Weighted Stock Index has renewed 2016 highs, inflows of funds from foreign investors fell sharply from a monthly average of TWD106.6 billion in June–August to TWD2.5 billion in September, with funds actually flowing out of Taiwan to the tune of TWD1.9 billion in October.

The USD/TWD pair's movements will continue to be shaped by U.S.-dollar trends in October. A U.S. rate hike by the year's end may become even more likely depending on the U.S. indicators released this month, but if the October U.S. employment data also confounds expectations, there will probably be some adjustment too. However, with the greenback's value being pushed up by pound and euro weakness, it is hard to make forecasts based solely on expectations for a U.S. rate hike. Furthermore, U.S. short-term interest rates have risen on the imposition of MMF regulations and this has pushed up U.S. interest rates across all durations. This also appears to have boosted the relative attractiveness of the U.S. dollar. Under these circumstances, it is hard to discern a sense of direction when it comes to factors in both Taiwan and the U.S., so market participants should be on guard against any unexpected movements. However, it is hard to imagine the USD/TWD pair undergoing a one-sided rise or fall based on indirect factors. Moreover, even if the FRB does decide to lift interest rates, if it takes a balanced stance by insisting that rates will be raised at a gentle pace from 2017 onwards, for example, then U.S.-dollar bullishness will also peak out and the USD/TWD pair will continue swinging to and fro.

Turning to Taiwanese factors, and with the BOT keeping policy rates fixed in September, December seems too early for a rate hike. Though the decision to keep rates fixed apparently pushed the Taiwan dollar higher, the BOT does not seem ready to tolerate Taiwan-dollar bullishness if it means cooling off an overheating economy. One-year interest rate swaps also appear somewhat high compared to 3-month TAIBOR rates, so the markets also seem to have reached the same conclusion. However, 5-year interest rates continue to rise in tandem with U.S. interest rates, so it seems mid- to long-term interest rates are jumping the gun somewhat.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – November 2016

Expected Ranges	**Against the US$:**	**HK$ 7.7500–7.7650**
	Against the yen:	**JPY 13.27–13.80**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in October

The U.S. dollar/Hong Kong dollar exchange rate remained within a narrow range between HKD 7.755 and HKD 7.760 in October. This is due to the fact that there were both factors to sell and factors to buy the Hong Kong dollar, cancelling out each other's impact. The pressure to buy the U.S. dollar against the Hong Kong dollar strengthened when expectations grew for the interest rate hike in the U.S., leading the U.S. dollar index to reach its highest level in nine months, while the Hong Kong dollar was supported by a large-scale capital inflow into the stock market and real estate market in Hong Kong, coming from Mainland China. The one-year U.S. dollar/Hong Kong dollar forward point also remained within a limited range between -125 points and -193 points. This is due to the fact that the three-month U.S. dollar LIBOR did not rise significantly after remaining high at around 0.88% when the MMF regulations were tightened in the U.S. in the middle of October.

Hong Kong dollar interest rate market in October

The three-month HIBOR, which is the benchmark interest rate, rose to approach 0.6%, due to various factors such as growing demand for Hong Kong dollar capital before the end of the year, the appreciation of the U.S. dollar LIBOR, and the expectations for the interest rate hike in the U.S. in December. The current deposit account balance of the Hong Kong Monetary Authority (HKMA), which is an index that shows the liquidity level in the interbank market, remained flat from the previous month at HKD 260 billion. As the pace of the issuance of foreign exchange fund securities have slowed down, it seems that the HKMA is trying to keep the high liquidity level and the low interest rate level for the Hong Kong dollar. In addition, the three-month U.S. dollar LIBOR reached 0.88%—its highest level in seven years, after the MMF regulations were tightened in the U.S. However, the appreciation of the interest rates seems to have slowed down thereafter. Therefore, the interest rate differential between the Hong Kong dollar HIBOR and the U.S. dollar LIBOR has widened only slightly to -0.27%. It should also be mentioned that the Hong Kong dollar interest rate swap market has become active as a result of active bond issuance. The five-year rate has increased from the 1.13% observed at the end of September to 1.31% in October.

Hong Kong stock market in October

The benchmark Hang Seng Index did not exceed the 24,000-point mark. Based purely on the stock market, the capital inflow from Mainland China has decreased from the previous month, leading to the downturn of the stock market. There were some negative factors regarding market sentiment, such as the increase of the downward pressure on the Chinese yuan observed again after the entry of the Chinese yuan into the SDR currency basket, as well as the expectations for the interest rate hike in the U.S. in December. As a result, investors grew more cautious. On the other hand, the stock market was also supported by the stable crude oil market and the bullish real estate market in China and Hong Kong, which mainly strengthened related sectors.

2. Outlook for This Month:

Hong Kong dollar spot exchange market in November

The U.S. dollar/Hong Kong dollar exchange rate is expected to remain within almost the same range as in the previous month between HKD 7.750 and HKD 7.765. As it is likely that the U.S. dollar interest rate hikes will be slow, large-scale capital outflows are improbable. Even though downward pressure on the Chinese yuan has strengthened again, China is expected to achieve its annual economic growth target of 6.5%. Market participants are thus not dramatically pessimistic. Concerns over the hard landing of the Chinese economy or the sharp depreciation of the Chinese yuan have also been mitigated. The only possible concern at this point would be the chief executive election in Hong Kong scheduled for March next year. The one-year U.S. dollar/Hong Kong dollar forward point may not fall further, as it seems that the appreciation of the U.S. dollar LIBOR has slowed down.

Hong Kong dollar interest rate market in November

Even though expectations are growing for the interest rate hike in the U.S. in December, the HKMA has slowed down the pace of the issuance of foreign exchange fund securities. As a result, the amount of capital absorbed in the market would decrease, keeping the Hong Kong dollar short-term interest rates low and stable. It seems to us that the HKMA will keep the interest rates low so as not to lead the real estate bubble to collapse. As the appreciation of the crude oil price has led to mounting expectations for inflation, medium- to long-term interest rates would see increased upward pressure. If inflation or the interest rate hikes in the U.S. start to accelerate, the interest rates in the Hong Kong dollar interest rate swap market would increase further in the times ahead.

Chihiro Agekido, Treasury Division, MHBK (China)

Chinese Yuan – November 2016

Expected Ranges	**Against the US$:**	**CNY 6.6300–6.8300**
	Against the yen:	**JPY 14.35–15.99**
	Against 100 yen:	**CNY 6.2500–6.6300**

1. Review of the Previous Month

Foreign exchange market

The Chinese yuan depreciated dramatically against the U.S. dollar in October, renewing its low since the beginning of the year.

The onshore market was closed from October 1 to October 7 because of the holidays for National Day of the People's Republic of China. However, the U.S. economic indices were released with strong figures in the meantime, while concerns grow again over the exit of the U.K. from the EU without keeping access to the EU single market ("hard Brexit")—triggered by the remarks of U.K. Prime Minister Theresa May. As a result, the U.S. dollar continued appreciating, and the Chinese yuan depreciated from the upper-CNY 6.67 level to approach CNY 6.72 in the offshore market. After the holidays for National Day, the People's Bank of China (PBOC) central parity rate was set in the onshore market on October 10 at CNY 6.7008 against the U.S. dollar, with the Chinese yuan weaker by 230 pips compared to the rate on September 30. In the actual trading market as well, the U.S. dollar/Chinese yuan exchange market opened trading at around CNY 6.70 level. While the U.S. dollar generally remained strong, the Chinese yuan continued depreciating daily, leading the U.S. dollar/Chinese yuan exchange rate to approach CNY 6.73 level.

During the first half of the week commencing on October 17, the appreciation of the U.S. dollar slowed down, while the Chinese monetary authorities seemed to have intervened in the market by selling the U.S. dollar against the Chinese yuan. As a result, the U.S. dollar/Chinese yuan exchange rate remained flat at around CNY 6.74 level. On October 19, the July–September quarter GDP of China was released, and the result turned out to be as had been expected. Thus, the impact on the market was minimal. However, on October 20, the ECB committee held a meeting and decided to maintain the existing monetary policy, while suggesting the possibility of an additional measure of monetary easing to be introduced at the next committee meeting. As a result, the euro depreciated, leading the U.S. dollar to appreciate. Following this trend, the PBOC central parity rate was set at CNY 6.7558, with the yuan weaker by 247 pips compared to the rate of the previous day. In the actual trading market as well, the Chinese yuan depreciated against the U.S. dollar, and the exchange rate shifted from around CNY 6.74 to the mid-CNY 6.76 level. Thereafter, the Chinese yuan continued to depreciate, and the U.S. dollar/Chinese yuan exchange rate once reached the CNY 6.78 level.

Interest rate market

At the beginning of the month, liquidity was eased because of the holidays for National Day. As a result, the overnight SHIBOR that appreciated at the end of September returned to the level observed before the National Day holidays. However, from the middle of the month, needs for fund procurement increased mainly among foreign banks and stock market-listed commercial banks, tightening liquidity in the market with some procuring funds at an interest rate higher than the SHIBOR. In the second half of the month, there were funds supplied through open-market operations daily. However, the Chinese yuan was absorbed, as the Chinese monetary authorities carried out market intervention by selling the U.S. dollar and buying the Chinese yuan. Furthermore, the media reported that wealth management products that used to be an off-balance sheet item would be defined as lending in a broad sense and managed under the macro prudential framework. As a result, market participants grew cautious about the possibility that the deposit requirement ratio would be applied to investor funds, further tightening the supply & demand of funds. Even Chinese banks that are often the supplier of funds are procuring funds, raising the overall SHIBOR level.

2. Outlook for This Month:

Foreign exchange market

The Chinese yuan depreciated against the U.S. dollar in October, due to the appreciation of the U.S. dollar, and this trend is anticipated to continue in November. In the Chinese yuan actual trading market in October, the Chinese yuan depreciated by approximately 1.6% from the end of September. The Chinese yuan is currently at the same level as the time of the depreciation of the Chinese yuan observed in the one month after the referendum in the U.K. carried out in June this year. While concerns are growing over possible capital outflows from China resulting from the depreciation of the Chinese yuan, the Chinese monetary authorities seem to always have the intention to keep the Chinese yuan from excessively depreciating. Under such conditions, the depreciation of the Chinese yuan in November is expected to be slower than in October.

The Chinese yuan has become an international currency, as it was included in the SDR currency basket on October 1. As a result, the PBOC central parity rate has been more reflecting the trends in other currency markets that occurred during the previous day. On the other hand, there were some large-scale flows to buy the Chinese yuan against the U.S. dollar during the day that seemed to be market intervention by the Chinese monetary authorities. This is explained by PBOC Deputy Governor Yi Gang, who insisted that "China will generally continue keeping the Chinese yuan exchange market stable at an appropriate and balanced level." Even though it is difficult to see which level is considered appropriate and balanced by the Chinese monetary authorities, the Chinese yuan is likely to continue depreciating for a while.

In November, the presidential election will take place in the U.S. Even though the possibility for Donald Trump to be elected is currently not very high, impact on the U.S. dollar exchange market may still occur as a factor of uncertainty. Furthermore, concerns regarding the Brexit matters have been growing again since the first half of October. Therefore, the U.S. dollar/Chinese yuan exchange market may be significantly affected by external factors during this month.

Interest rate market

In October, liquidity was tightened, raising interest rates. This was due to various factors such as the media report regarding the management method of wealth management products that used to be off-balance sheet items and the market intervention by the Chinese monetary authorities that resulted from the continued depreciation of the Chinese yuan, as well as the increase of fund procurement needs for regular purposes such as tax payment. It seems that the Chinese monetary authorities have not changed their attitude toward their monetary policy, as can be seen in open-market operations carried out daily, as well as the use of medium-term lending facilities (MLF). It is thus unlikely for the liquidity level to drop so as to sharply raise the interest rate level. However, depending on the actions taken by the Chinese monetary authorities and the trends in the foreign exchange market, liquidity may tighten further, and interest rates may increase further, which have required sustained attention.

Noriko Suzuki, Asia & Oceania Treasury Department

Singapore Dollar – November 2016

Expected Ranges	**Against the US$:**	**SG$ 1.3700–1.4150**
	Against the yen:	**JPY 73.00–76.00**

1. Review of the Previous Month

The Singapore dollar depreciated against the U.S. dollar in October and renewed its lowest record against the U.S. dollar in seven months, breaking the balance kept since April this year, due to growing expectations for the U.S. interest rate hike.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange market opened at the lower-SGD 1.36 level. During the first week, various economic indices of the U.S. turned out to be stronger than expected in the market, including the September ISM manufacturing index, non-manufacturing index, as well as the number of new applications for unemployment insurance. This fueled expectations for the interest rate hike in the U.S. at an early point and encouraged market participants to buy the U.S. dollar against other major currencies. In particular, this led the Japanese yen and the British pound to continue depreciating daily, maintaining the strength of the U.S. dollar. The depreciation of the British pound was particularly serious from the beginning of the week, as concerns grew in the market over the possibility for the U.K. to lose access to the EU single market ("hard Brexit") as a result of the remark made by U.K. Prime Minister Theresa May made on October 2 at the Conservative Party Conference. Following this trend, the Singapore dollar depreciated almost daily as well. As a result, on October 4, the Singapore dollar weakened against the U.S. dollar to fall below the latest low observed in September at the lower-SGD 1.37 level. Then, on October 7, the September employment statistics of the U.S. were released, and the number of non-agricultural employees turned out to be weaker than expected. Thus, market participants sold the U.S. dollar immediately after the announcement. However, the previous figures were revised upward, which ameliorated the market sentiment. In the end, the U.S. dollar rallied before market closing. The U.S. dollar/Singapore dollar exchange rate also remained at the lower-SGD 1.37 level, and weekly trading then closed.

The Singapore dollar continued renewing its low daily in the second week of October as well, as market participants remained cautious regarding the announcement by the Monetary Authority of Singapore (MAS, the central bank of Singapore) regarding its monetary policy. On October 10, the market opened with the sharp depreciation of the Chinese yuan that followed the appreciation of the U.S. dollar observed during the consecutive holidays. The Thai baht depreciated sharply thereafter, as the media reported that the condition of the King of Thailand Bhumibol Adulyadej was getting worse, which led other Asian currencies to depreciate as well. On October 11, the following day, President of the Federal Reserve Bank of Chicago Charles Evans, who is known to be dovish, made the remark, "A December rate increase could be fine." In reaction to this, the U.S. dollar continued appreciating. As a result, market participants sold the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.38 level on October 13. Thereafter, the exchange rate once returned to the lower-SGD 1.38 level before the MAS meeting. At the meeting, the MAS maintained a neutral attitude and kept the central value and the width of the policy fluctuation band. This momentarily encouraged market participants to buy the Singapore dollar. However, the July–September quarter GDP of Singapore turned out to be significantly weaker than expected thereafter, which rapidly deteriorated the market sentiment, encouraging market participants to sell the Singapore dollar. The Singapore dollar thus depreciated, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.39 level. In the third week of the month, U.S. dollar-buying slowed down and the Singapore dollar remained low without fluctuating violently. On October 17, the October Manufacturing Index of the New York Federal Reserve Bank for the U.S. turned out to be weaker than expected, changing the trend and leading the U.S. dollar to depreciate. Furthermore, on October 18, there were some profit-taking activities before the announcement of the July–September GDP of China. As a result, the Singapore dollar rallied and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.38 level. However, on October 19, the GDP of China turned out to be at the level expected in the market, which stopped the Singapore dollar from rallying further. On October 20, the October Business Outlook Survey by the Philadelphia Federal Reserve Bank and the September existing home sales both turned out to be stronger than expected, strengthening the U.S. dollar again. Furthermore, on October 21, the Chinese yuan depreciated sharply, reaching its low in approximately six years. Following this trend, the Singapore dollar also renewed its low against the U.S. dollar in seven months by reaching the upper-SGD 1.39 level. In the fourth week of the month, the pressure to sell the Chinese yuan weakened, while market participants started to carry out profit-taking activities as the U.S. dollar/Singapore dollar exchange rate was approaching the SGD 1.40 mark—the psychological turning point. As a result, the Singapore dollar remained low, and the U.S. dollar/Singapore dollar exchange rate was fluctuating between the upper-SGD 1.38 level and the mid-SGD 1.39 level.

2. Outlook for This Month

The Singapore dollar is forecast to remain weak in November.

The MAS decided to maintain its existing monetary policy at its regular meeting in October, as had been expected in the market. However, in its statement, the MAS stated that "the neutral stance should be kept for a longer term," which is an unusually dovish remark, given that the MAS is generally known to be hawkish. While external demand is declining, the domestic real estate market is weakening. This is probably due to the fact that there is no promising solution for economic recovery and because the inflation risk remains low, with the labor market remaining loose based on the long-lasting recession. In April of this year, the MAS discontinued its policy to keep the Singapore dollar high after maintaining it for six years, in order to shift to a neutral policy. Market participants were not expecting the MAS to change its policy again this time, as a neutral policy needs to be continued for obvious reasons rather than to simply wait and see. However, it is possible for the MAS to change its policy again in the times ahead for the purpose of monetary easing if there is an unexpected crisis (such as the "hard Brexit").

Under such circumstances, the depreciation of the Singapore dollar accelerated in October, upsetting the balance previously maintained. This is due to the fact that currencies in the currency basket—the euro, Japanese yen, and Chinese yuan—depreciated. However, as the MAS is unlikely to change policy regarding monetary tightening for a considerable time, the Singapore dollar may remain relatively weak even if those currencies stop depreciating in the times ahead.

The U.S. presidential election is taking place in November, and a victory by Hillary Clinton is almost certain. Thereafter, the U.S. dollar is likely to remain generally stable and strong with mounting expectations for the interest rate hike in December. Even if the U.S. dollar may depreciate temporarily due to profit-taking activities, the U.S. dollar/Singapore dollar is not likely to fall below the SGD 1.37 level—the point where the balance was broken. Furthermore, it should also be mentioned that if market participants continue selling the Singapore dollar and if the U.S. dollar/Singapore dollar exchange rate exceeds the SGD 1.40 level—the psychological turning point—it is possible for the Singapore dollar to continue depreciating against the U.S. dollar so as to reach the lower-SGD 1.41 level.

Yuki Inoue, Bangkok Treasury Office

Thai Baht – November 2016

Expected Ranges	**Against the US$:**	**BT 33.70–35.05**
	Against the yen:	**JPY 2.95–3.10**

1. Review of the Previous Month

The U.S. dollar/Thai baht exchange market remained turbulent in October, with the Thai baht temporarily reaching its high since January this year.

During the first part of the month, the U.S. dollar/Thai baht exchange market remained stable. On October 3, the U.S. dollar/Thai baht pair started trading at the THB 34.60 level. On the same day, the September Consumer Price Index (CPI) turned out to be +0.38%, almost as had been expected in the market. Thereafter, interest rates appreciated in Europe and the U.S., due to expectations for the ECB to start tapering its bond buying program, while the U.S. September ISM Non-Manufacturing Report on Business turned out to be stronger than expected. As a result, U.S. dollar-buying dominated the market. Following this trend, the U.S. dollar/Thai baht exchange rate also approached THB 35.00.

In the middle of the month, the U.S. dollar/Thai baht exchange rate rose temporarily to the THB 35.80 level. In the evening of October 9, the royal palace of Thailand made an unprecedented announcement about King of Thailand Bhumibol Adulyadej's worsening condition. In reaction to this, the U.S. dollar/Thai baht exchange rate rapidly exceeded THB 35.00 after the weekend. Stock prices also depreciated sharply, encouraging market participants to sell the Thai baht further. While the market remained unstable, market participants continued selling the Thai baht on October 12, and the U.S. dollar/Thai baht exchange rate approached THB 35.90—the highest rate since January this year. On October 13, the death of King of Thailand Bhumibol Adulyadej was announced after the closing of the stock market, after which market participants rapidly bought back the Thai baht. On October 14, the following day, the Thai market was open as usual, and market participants continued buying back the Thai baht and Thai stocks. As a result, the U.S. dollar/Thai baht exchange rate once fell below THB 35.00. Then, Governor of the Bank of Thailand (BOT) Veerathai Santiprabhob made a few remarks: "there has been no extraordinary speculation in the foreign exchange market" and "the BOT is ready to support Thai baht liquidity when the liquidity level falls," which also encouraged market participants to buy back the Thai baht. After the weekend, the Thai market was open as usual on October 17 and thereafter. Nationally, there was no particular confusion, and market participants mainly bought back the

Thai baht. As the crude oil market and the stock markets in Europe and the U.S. remained stable, and as the July–September quarter GDP of China was announced on October 19 with a result that turned out to be +6.7% year-on-year, as had been expected in the market, concerns over the Chinese economic downturn were cancelled out. As a result, the global risk sentiment was ameliorated, leading the U.S. dollar/Thai baht to temporarily reach the THB 34.80 level.

During the last part of the month, the U.S. dollar/Thai baht exchange rate hovered around at the THB 35.00 level. As market participants sold the Chinese yuan against the U.S. dollar, the U.S. dollar/Thai baht exchange rate rose to the THB 35.10 level thereafter. However, baht-buying became dominant again, thanks to capital inflow into the bond market and the stability of the stock market. As a result, the U.S. dollar/Thai baht exchange rate fell to the THB 34.80 level again toward October 26. Then, on October 26, the Ministry of Commerce of Thailand announced the September trade statistics. Exports recorded +3.4%—positive year-on-year growth for the second consecutive month—reaching USD 19.46 billion. However, the reaction to this in the market was limited.

2. Outlook for This Month:

The U.S. dollar/Thai baht exchange market is forecast to remain stable in November.

Due to the death of King of Thailand Bhumibol Adulyadej, the U.S. dollar/Thai baht exchange market saw a moment of panic in October, and the exchange rate approached THB 35.90 against the U.S. dollar. However, the market is gradually calming down. Overseas investor capital outflow, which had encouraged market participants to sell the Thai baht, has also slowed down. Thus, the U.S. dollar/Thai baht exchange rate returned to a level below THB 35.00 again, with strong pressure to buy the Thai baht, reflecting the supply & demand balance. However, on the other hand, if one compares factors for the depreciation of the Thai baht and factors for the appreciation of the Thai baht, there are currently more factors for the depreciation of the Thai baht, which was not the case for a long time.

The BOT has scheduled its monetary policy committee (MPC) meeting for November 9. This is gathering a lot of attention, as it will be the first meeting held after the death of King of Thailand Bhumibol Adulyadej. For 30 days, all events will be cancelled, and there will be a year-long period of national mourning, which is leading to concerns over a decline in personal consumption. Furthermore, the tourism industry, a leading wheel of the Thai economy, is also expected to decline. Thus, market participants are starting to wait for an interest rate cut by the BOT. At the moment, the policy interest rate has been 1.50% for more than one year. Given that the all-time lowest interest rate in Thailand is 1.25%, it is possible for the BOT to cut the interest rate by 25 basis points if necessary. Going back several years, Princess Galyani Vadhana died in 2008, and this led to the cancellation of governmental events, causing a decline in governmental spending, which impacted the private sector. In the end, the GDP growth rate declined because of this. This time, it seems that the government wants to keep impact on the economy minimal, calling for normal economic activities at financial institutions and industries. Even though it would take some time before the economic decline becomes visible in economic indices, it is possible for the BOT to cut the interest rate before the economic decline becomes obvious. Thus, market participants should carefully wait for the decisions of the MPC meeting for this month. Even enough it is unlikely to expect the interest rate to be cut this month, the BOT may imply an interest rate cut in the near future, which would lead the Thai baht to depreciate. Furthermore, in terms of the political situation, there have been concerns over delays in democratization, while there have been rumors about an explosion incident in late October. It is thus possible for domestic conditions in Thailand to worsen again in the times ahead, and unexpected events may lead the Thai baht to depreciate, which is another point of concern.

The most important external factor is the outlook regarding the interest rate hike in the U.S. The interest rate futures market suggests that the interest rate hike in December has been reflected in the market by more than 70%, making it almost a done deal. The sense of uncertainty in the market is likely to disappear after the U.S. presidential election scheduled for November 8. Thus, the U.S. dollar is expected to remain strong toward the FOMC meeting in December. The U.S. dollar/Thai baht exchange market is also likely to follow this trend, and the exchange rate is likely to remain high.

For the above reasons, the Thai baht is expected to remain stable and strong against the U.S. dollar in this month.

Takashi Miyachi, Asia & Oceania Treasury Department

Malaysian Ringgit – November 2016

Expected Ranges	**Against the US$:**	**MYR 4.15–4.30**
	Against the yen:	**JPY 24.00–26.00**

1. Review of the Previous Month

The U.S. dollar/Malaysian ringgit exchange market opened at the lower-MYR 4.11 level in October. Thereafter, the U.S. economic indices were released with strong figures, which fueled expectations for an interest rate hike in the U.S. before the end of the year. As a result, interest rates in the U.S. appreciated. The appreciation of the U.S. interest rates encouraged market participants to buy the U.S. dollar, which led the Malaysian ringgit to depreciate against the U.S. dollar to the upper-MYR 4.14 level. Even though the crude oil price remained high and stable after the provisional agreement to cut oil production at the unofficial OPEC meeting held at the end of September, the Malaysian ringgit continued depreciating. As a result, the U.S. dollar/Malaysian ringgit exchange rate reached the lower-MYR 4.15 level. On October 7, the August trade balance of Malaysia was released, and the trade surplus turned out to be significantly better than expected, at MYR 8.5 billion. However, the impact of this on the Malaysian ringgit exchange market was limited.

On October 11, U.S. interest rates appreciated again, leading the Malaysian ringgit to depreciate. On October 12, the following day, the August industrial production of Malaysia was announced, and the result turned out to be +4.9% year-on-year, significantly lower than +5.4%, the level expected in the market. As a result, Malaysian ringgit-selling accelerated. On October 13, the crude oil price started falling, which led the Malaysian ringgit to depreciate further, and the U.S. dollar/Malaysian ringgit exchange rate reached the lower-MYR 4.22 level for the first time since March this year. Thereafter, overall Asian currencies remained weak, and the central bank of Malaysia upwardly revised the amount of capital that flew out of the bond market in September, from the original figure. These factors kept the Malaysian ringgit weak.

In the middle of the month, U.S. economic indices (which were stronger than expected) and the depreciation of the Malaysian bond prices led the Malaysian ringgit to depreciate again, and the U.S. dollar/Malaysian ringgit exchange rate reached the lower-MYR 4.22 level. However, toward the second half of the week, the appreciation of the U.S. interest rates slowed down, while the crude oil price remained stable, which strengthened the Malaysian ringgit. As a result, the U.S. dollar/Malaysian ringgit exchange rate reached the lower-MYR 4.17 on October 20. Thereafter, the September Consumer Price Index of Malaysia was announced, and the result showed stability, but its impact on the market was limited. In the end, market participants sold the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit trading closed at the upper-MYR 4.18 level.

In the second half of the month, the Malaysian ringgit rallied against the U.S. dollar to temporarily reach the lower-MYR 4.14 level. This is thanks to the fact that the draft budget for FY2017 was announced on October 21, maintaining the principle of financial restructuring, which was seen preferably in the market, while other Asian currencies strengthened as well. However, the crude oil price started to fall thereafter, and market participants started buying the U.S. dollar more actively because of expectations for an interest rate hike in the U.S. As a result, the Malaysian ringgit weakened against the U.S. dollar, and trading closed at the upper-MYR 4.19 level. On October 31, the last day of October, the Malaysian ringgit continued falling, and in the end, the U.S. dollar/Malaysian ringgit trading closed at the mid-MYR 4.19 level.

2. Outlook for This Month

The Malaysian economic indices announced in the past month came with both strong and weak figures. First of all, August exports recovered from the negative figure observed last month to +1.5% year-on-year this month. On the other hand, the August industrial production of Malaysia turned out to be weaker than expected. Based on the latest economic indices, it can be said that business confidence in Malaysia is a mixture of both good and bad elements. Under such conditions, some public institutions revised their economic outlook for Malaysia downward for this year and next year during the first half of October. At least, it seems too early to say that the economic environment has started properly recovering. Furthermore, concerns about business confidence in Malaysia are particularly serious compared to other countries in Asia. Therefore, the economic environment is likely to keep the Malaysian ringgit from appreciating for a while.

It should also be mentioned that the Malaysian ringgit market and the Malaysian government bond market have been highly interrelated over the past three months. Thus, it is likely that the depreciation of bond prices induced the depreciation of the Malaysian ringgit as well. As the interest rates of Malaysian government bonds are likely to reflect the trend in the long-term interest rates in the U.S., there are risks for Malaysian government bond prices to fall as long as U.S. interest rates remain stable, waiting for an interest rate hike in the U.S. before the end of the year. Therefore, the Malaysian ringgit is likely to remain weak in the times ahead.

On the other hand, the draft budget for Malaysia for FY2017 was released on October 21, introducing a target to cut the fiscal deficit in percentage GDP to -3.0%. Thus, the principle of fiscal reconstruction was maintained, as had been the case in the previous year. As Malaysia will hold a general election in 2018, some have expected fiscal deregulation because of the election. However, as the current principle was maintained, there are now less risks for Malaysian governmental bonds to be downgraded by ratings companies. From a long-term perspective, the general direction to reconstruct the financial structure is likely to function as a positive factor for the Malaysian ringgit exchange market.

It should also be pointed out that the volatility level has been falling sharply in the foreign exchange market. The one-month volatility level in the U.S. dollar/Malaysian ringgit exchange market has dropped to the level observed in July last year. Given the experience in which the volatility level has increased along with the depreciation of the Malaysian ringgit, market participants are not expecting the Malaysian ringgit to depreciate significantly. Thus, the possible depreciation for the Malaysian ringgit is limited.

Considering the above factors, it is unlikely for the Malaysian ringgit to depreciate as sharply as it did before. However, the Malaysian ringgit is forecast to remain low for the time being.

Ryosuke Kawai, PT. Bank Mizuho Indonesia

Indonesian Rupiah – November 2016

Expected Ranges	**Against the US$:**	**IDR 12,600 – 13,300**
	Against 100 rupiah:	**JPY 0.75–0.83**
	Against the yen:	**IDR 120.00–129.10**

1. Review of the Previous Month

The U.S. dollar/Indonesian rupiah exchange rate remained generally stable within a narrow range between IDR 12,950 and IDR 13,080 in October, although the exchange rate temporarily appreciated in the middle of the month.

It seems that the capital inflow related to the tax amnesty program, which led the Indonesian rupiah to record its highest rate in approximately a year and five months at the end of September, has slowed down.

In the first half of the month, the U.S. dollar/Indonesian rupiah exchange market opened at around IDR 13,020. Thereafter, the Consumer Price Index (CPI) was announced on October 3, but the result was as expected in the market, and the reaction in the market was minimal. The U.S. dollar/Indonesian rupiah exchange rate thus continued fluctuating within a narrow range at around IDR 13,000. On October 7, the foreign currency reserve was announced with a steady increase of USD 2.13 billion from the previous month at USD 115.67 billion.

In the middle of the month, the U.S. dollar/Indonesian rupiah exchange rate temporarily appreciated because of growing expectations for the interest rate hike in the U.S. before the end of the year as well as the weak figures in the trade statistics. The exchange rate once approached IDR 13,080 to the U.S. dollar. However, the trend changed because of capital inflow from abroad, and the exchange rate dropped thereafter.

On October 17, the trade balance was announced, and both imports and exports showed negative year-on-year growth, against expectations. Also, the trade surplus turned out to be greater than expected, as the decrease in imports was greater than that in exports. However, the reaction in the market was minimal.

In the second half of the month, Bank Indonesia (BI) (the central bank of Indonesia) cut the interest rate unexpectedly on October 20 (the second cut since the policy interest rate was changed to the seven-day reverse repo rate and the sixth cut since the beginning of the year). Even though market participants temporarily sold the Indonesian rupiah thereafter, the interest cut was seen as a positive factor to boost the Indonesian economy, which led the U.S. dollar/Indonesian rupiah exchange rate to fall. Capital inflow from abroad increased thereafter, exceeding the demand for the U.S. dollar for the end of the month by importing companies. As a result, the U.S. dollar/Indonesian rupiah exchange rate has remained stable at around IDR 13,010 as of October 26.

* Tax amnesty law: In June, the Indonesian government approved a bill to partially exempt tax liabilities without prosecuting past tax evasion until March next year, in order to bring funds that once flew into overseas markets back to the Indonesian market. The lowered tax rate is scheduled to be raised in stages.

2. Outlook for This Month:

The Indonesian rupiah is expected to remain strong against the U.S. dollar in November.

With regard to external factors, the FOMC decided to maintain the interest rate at the existing level at its meeting in September. The policy interest rate outlook for 2017 by the FOMC members was also revised downward. Further, the interest rate hike by the FOMC in December has already been reflected in the market to a great extent. Thus, the downward pressure on the Indonesian rupiah is likely to be limited.

On the other hand, with regard to domestic factors, tax payment and capital inflow related to the tax amnesty program that was originally reported to be ineffective increased significantly at the end of September, supporting the stability of the Indonesian rupiah exchange market. Capital inflow from abroad is likely to continue supporting the Indonesian rupiah market, as the end of the period of the first-phase reduced tax rate (the tax rate is to be raised in three phases) has been postponed from September to December, while market participants view the monetary easing program of the BI to be positive.

The latest economic trend will be visible through the July–September quarter GDP, which is to be announced at the beginning of November. It is expected that the private consumption items that account for around half of the GDP of Indonesia will show weak figures. However, the reaction in the market is likely to be limited.

With regard to the interest rate, BI Governor Agus Martowardojo suggested his intention for monetary easing. It is thus not impossible for the interest rate to be cut further.

Yoichi Hinoue, Manila Branch

Philippine Peso – November 2016

Expected Ranges	**Against the US$:**	**PHP 48.00–49.50**
	Against the yen:	**JPY 2.10–2.18**

1. Review of the Previous Month

The depreciation of the Philippine peso against the U.S. dollar that was observed in September slowed down in October in the U.S. dollar/Philippine peso onshore interbank market.

In September, risk-averse sentiment grew in the market, and the Philippine peso saw its lowest rate against the U.S. dollar in seven years, at around PHP 48.50. This is mainly due to: 1) concerns over the relationship between the U.S. and the Philippines triggered by the statement made by Philippine President Rodrigo Duterte, 2) strong expectations in the local market for an interest rate hike by the FOMC (Federal Open Market Committee) in December, and 3) credit uncertainty regarding European financial institutions.

Market participants were observing how far Philippine peso-selling would continue in October, but the depreciation of the Philippine peso slowed down in October. This is thanks to the fact that the credit uncertainty regarding European financial institutions was mitigated, while the pressure to sell Philippine stocks among overseas investors was also weakened. Furthermore, market participants were aware of the attitude of the Philippine monetary authorities, who want to stop the Philippine peso from depreciating rapidly.

Thereafter, the U.S. dollar/Philippine peso exchange rate once fell below PHP 48.00, as short-term investors temporarily bought back the Philippine peso. This is because of the fact that the OFW (Overseas Filipino Workers) remittances in August turned out to be significantly greater than expected in the market, while the external ratings company, Moody's, revealed its view that "While there is a sense of uncertainty in Philippine politics, the economic fundamentals are robust." Furthermore, market participants bought Philippine stock, expecting the relationship between China and the Philippines to be strengthened in the times ahead after Philippine President Rodrigo Duterte's visit to China.

However, there are many market participants that expect an interest rate hike in the U.S. in December. With concerns over the exit of the U.K. from the EU without access to the EU single market ("hard

Brexit"), there is persistent demand to buy the U.S. dollar. In the end, in October, the U.S. dollar/Philippine peso exchange rate remained at the same level as was observed at the end of last month, although there was no significant appreciation while the market was adjusting back from the trend observed from the previous month (as of 16:00 on October 27, local time)

2. Outlook for This Month

The U.S. dollar/Philippine peso exchange may approach its high in November.

In September, the U.S. dollar appreciated sharply against the Philippine peso, and therefore, market participants expected the market to remain stagnant so as to adjust back from this trend. However, the U.S. dollar/Philippine peso fell below PHP 48, albeit momentarily, in October. Thus, many market participants see this as the end of the adjustment phase.

It goes without saying that it is currently difficult for market participants to buy the Philippine peso, while it is increasingly likely for the interest rate in the U.S. to be raised in December. Furthermore, there are multiple negative factors fueling risk-averse sentiment in the market, such as credit risks regarding European financial institutions as well as the possibility of a "hard Brexit." There is also the U.S. presidential election, which is a very influential event.

Even though there is now less pressure to sell Philippine stocks among overseas investors, such sales are likely to consist of net sales in November. The Philippine stock exchange index (PSEi) has fallen below the 7,500 mark.

The 7,500 mark is also a psychological turning point, and therefore, we should keep observing the market carefully to see if the index will fall further below 7,500 points. It would be easy for market participants to buy Philippine stocks if risk-taking sentiment grows globally in the market. However, if stock prices continue falling so as to renew the latest low at 7,312.18 points, market participants are likely to sell Philippine stocks toward the end of the year for the purpose of profit-taking. Thus, the stock prices may remain low, which would lead the Philippine peso to depreciate.

Therefore, the Philippine peso is unlikely to appreciate without market intervention by the Philippine monetary authorities or counterintuitive Philippine peso-buying (as of 16:00 on October 27, local time).

Junya Tagawa, Asia & Oceania Treasury Department

India Rupee– November 2016

Expected Ranges	**Against the US$:**	**INR 66.50–67.20**
	Against the yen:	**JPY 1.54–1.60**

1. Review of the Previous Month

In October, the Indian rupee appreciated slightly against the U.S. dollar.

The U.S. dollar/Indian rupee exchange market opened trading at the INR 66.50 level in October. On October 4, the U.S. dollar/Indian rupee exchange rate fell below INR 66.40—the monthly high for the Indian rupee, before the meeting of the Reserve Bank of India (RBI). However, the RBI decided to cut its policy interest rate by 25 basis points at this meeting, which was a surprise in the market. As a result, the trend changed and the Indian rupee depreciated.

Toward the middle of the month, the U.S. dollar was bought in the overall foreign exchange market. Furthermore, the currencies of the overall emerging countries started to depreciate following the depreciation of the Chinese yuan. As a result, the Indian rupee reached its monthly low against the U.S. dollar, approaching INR 67.00. However, on October 13, the September Consumer Price Index (CPI) and the Wholesale Price Index (WPI) of India were released and the results were both below the expected levels. This mitigated concerns over inflation in India, and the Indian rupee stopped depreciating, thanks to the sense of relief in the market.

Toward the end of the month, the appreciation of the U.S. interest rates slowed down, and thus U.S. dollar-buying slowed down. However, the Chinese yuan continued depreciating, reaching its low against the U.S. dollar in six years. Following this trend, other currencies of emerging countries started to weaken. The U.S. dollar/Indian rupee exchange rate remained at the same level, without moving into any direction.

As of October 27, the U.S. dollar/Indian rupee exchange rate has remained at around INR 66.89.

It should also be mentioned that the Indian rupee/Japanese yen exchange market opened at the JPY 1.52 level. The Japanese yen continued depreciating against the U.S. dollar from the lower-JPY 101 level to the JPY 104 level. Following this trend, the Indian rupee/Japanese yen exchange rate also temporarily approached the JPY 1.57 level despite the monetary policy change described above. Toward the second half of the month, the Indian rupee remained strong against the Japanese yen, although the exchange rate did not rise further. As of October 27, the Indian rupee/Japanese yen exchange rate remains at around INR 1.56.

2. Outlook for This Month

In November, the Indian rupee exchange market is expected to remain relatively stable. However, factors related to the U.S. and China would remain influential in the times ahead.

The RBI decided to cut its policy interest rate at the first meeting after the new governor, Urjit Patel, took office. As this event had been reflected in the market by only around 50%, this early action by the RBI turned out to be a slight surprise. Market participants are generally happy about this decision, as it shows a good relationship between the RBI and the Indian government, and take it as a quick measure to boost the Indian economy.

However, it is now unlikely for the RBI to continue cutting the interest rate in the times ahead, given that the interest rate was cut earlier than expected, while the majority expected the interest rate to be cut in December. There are thus less expectations in the market for an additional interest rate cut. Furthermore, there is little room for further interest rate cuts, as there are some factors for inflation, such as the raising of salaries for state employees as well as a recovery in the crude oil price, although the CPI has recently been falling mainly with food prices. If prices start going up, there will be even less expectations for an interest rate cut. Rapid inflation would cause the Indian rupee to depreciate. However, if prices start falling slowly to the lowest level, it would help the Indian rupee exchange market stabilize.

It should also be pointed out that the U.S. dollar exchange market is likely to be volatile in the times ahead, as a U.S. presidential election will occur in November, while market participants will start speculating about the decision regarding the interest rate hike to be made at the December FOMC meeting—a key moment for the FRB. The Chinese yuan, which has been continuing to renew its low, will also be a key factor for the emerging market, which also requires careful observation.

While domestic factors in India remain slightly optimistic, overseas factors will be important for the Indian rupee exchange market before the end of the year. Thus, the Indian rupee exchange market is expected to be volatile in this month.

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

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