Mizuho Dealer’s Eye

December 2016

Mizuho Bank, Ltd.

Forex Department

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U.S. Dollar – December 2016

Expected Ranges **Against the yen: JPY109.00–118.00**

1. Review of the Previous Month

In November, the dollar/yen pair rose sharply on the unexpected result of the U.S. presidential election.

It opened the month trading at the upper-104 yen mark on November 1. It dropped to the lower-103 yen level over November 2–3 as risk aversion flared up when new opinion polls showed Hillary Clinton and Donald Trump scoring similar approval ratings. The U.S. employment data for October was released on November 4, with the average wages data hitting its highest level for roughly seven years, but with the U.S. presidential election looming the following week, the pair closed the week at the lower-103 yen mark. Risk aversion eased off and the pair climbed to the lower-104 yen level on November 7 after the FBI informed Congress that it would not be prosecuting Hillary Clinton over her use of a private e-mail server. It seemed Clinton was in the ascendancy over November 8–9, but the pair then fell to the lower-103 yen level after polling opened as a Trump victory became a possibility. When it became clear that Trump had indeed won, the pair crashed to a monthly low of 101.19 yen. However, the risk-off mood suddenly shifted during overseas trading time. As U.S. interest rates rose on speculation about the economic policies of the new Trump administration, the pair shot back up while activating stop losses. Dollar buying continued over November 10–11, with the pair climbing temporarily to 106.95 yen.

With the Dow Jones Average then renewing a record high on November 14, the pair hit 108.54 during overseas trading time. With a December FOMC rate hike seeming more-or-less certain, the pair rose to 109.76 yen, but it was then pushed down to the lower-109 yen level when the U.S. Producer Price Index (PPI) for October fell below market expectations. As dollar selling intensified on November 17, the pair dropped to 108.55 yen, but it then rallied to the 109 yen range on reports that the Bank of Japan (BOJ) had conducted yield-control operations. The benchmark yield on 10 year U.S. treasuries then rose to 2.30% for the first time in around a year after FRB Chair Janet Yellen said a rate hike "could well become appropriate relatively soon." This saw the dollar/yen pair breaking through the key 110 yen mark to hit 110.18 yen. It continued rising to 110.95 on November 18 on hawkish comments by FRB members.

The pair weakened to the mid-110 yen level on November 21 on falling U.S. interest rates, but it bounced back to the lower-111 yen mark as the greenback was bought on the bullish movements of U.S. stocks. It dropped back to the lower-110 yen level on November 22 as risk aversion flared up after an earthquake occurred off the coast of Fukushima Prefecture. The pair then surged to around 113 yen on November 23 on the bullish results of the U.S. durable goods orders indicator for October and the Michigan Consumer Sentiment Index for November. With the U.S. markets off for Thanksgiving, the dollar was bought over November 24 and the pair strengthened to 113.90 yen on November 25. Amid a dearth of any noteworthy factors on November 28, the currency pair saw some adjustive selling after its previous surge and it plummeted to 111.36 yen. The pair swung to and fro over November 29 in advance of an OPEC meeting. At the meeting on November 30, OPEC agreed to cut production. As a result, the dollar/yen pair hit a monthly high of 114.55, its highest level in nine months, before closing the month at the mid-114 yen mark.

2. Outlook for This Month:

The dollar/yen pair is expected to move firmly this month, though there is a danger the Trump Rally could be unwound. Three weeks have passed since Donald Trump won the presidential election. During this time, the currency pair has surged from 105 yen before the election to its current level at 114 yen. Trump has called for large-scale fiscal spending. Observers believe this will help push up the inflation rate, with the dollar/yen pair subsequently boosted by rising U.S. interest rates. The markets are now factoring in the positive aspects of Trump's espoused policies. However, there is still considerable uncertainty about the extreme anti-trade and anti-immigration policies he championed before the election. As such, though the pair rose sharply on the so-called Trump Rally, many observers are now expecting some adjustment. However, though the pair fell to 111 yen at the end of November, it soon returned to 112 yen on demand for buying on the dip, so the Trump Rally still seems to have momentum behind it. The OECD also released its Global Economic Outlook for 2017 on November 28. The report took into account the infrastructure spending pledged by Trump and it predicted that the global growth rate would be pushed up by fiscal policies in 2017. The debate about fiscal policy will kick off in earnest from here on, with the dollar/yen pair's downside likely to be supported by optimistic hopes for a global fiscal expansion.

The most important event this month will probably be the FOMC meeting over December 13–14. The interest rate futures market puts the likelihood of a December rate hike at 100%. Considering how this figure stood at around 70% when rates were hiked last December, it seems the impact of this month's rate hike will be negligible. However, attention should be paid to the 'high-pressure economy' mentioned by FRB Chair Janet Yellen. If U.S. interest rates look set to rise further on expectations about the Trump administration's fiscal policies, the focus will also fall on whether the FRB will tolerate prices rising beyond its 2% inflation target. Market participants will also be keeping a close watch on U.S. economic indicators. With the economy more-or-less approaching full employment, the pair will continue to be pulled along by momentum until Trump assumes office in January. Events to watch out for in Japan include the BOJ Monetary Policy Committee (MPC) meeting over December 19–20. The MPC left monetary policy unchanged at its meeting on November 1. Furthermore, in its Outlook Report, released the same day, the BOJ pushed back the date it expected to achieve its about-2% inflation target to around fiscal 2018. As such, the MPC will probably leave policy unchanged this month too. Europe will see an Italian referendum on December 4. If political risk rises on the result, risk aversion is also likely to intensify, but with the U.S. economy remaining on the path to recovery, the global trend of one-sided dollar bullishness looks set to continue. While market participants should remain on guard against an unwinding to the Trump Rally, the dollar/yen pair will probably move firmly this month on expectations for rising U.S. interest rates.

Dealers' Market Forecast

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

Bullish on the dollar (6 bulls: 109.00–118.00, Core: 109.50–117.00)

Fujisaki	109.00 – 117.00	The FRB will probably implement a rate hike this month. With the Trump Rally also set to continue, the dollar is likely to be bought in the short term. Trump himself does not appear to welcome dollar bullishness. With trading also likely be thin around the turn of the year, market participants should be on guard against any sudden market shifts.
Kato	110.00 – 118.00	The dollar's post-election bullishness seems somewhat premature. As such, there is likely to be some adjustive selling at the start of the year. At the same time, market attention is clearly shifting to interest rates (yields). As Japan persists with negative interest rates, market participants will test the pair's topside in the wake of widening interest-rate differentials.
Takada	109.00 – 117.00	The dollar has been rising recently on a sense of anticipation regarding the expansive fiscal policies of the upcoming Trump administration. There are no signs of the trend reversing at present, with the greenback set to move firmly this month. Regardless of any particular event, the pair may crash and undergo some adjustment on a sense of overheating, though this slide will be temporary in nature.
Sato	109.00 – 118.00	The Trump Rally will continue. The dollar is unlikely to move bearishly during the transition from the Obama to the Trump administration. With the FOMC expected to hike rates in December and continue doing so in 2017, the dollar/yen pair will have its topside tested this month.
Nishitani	110.00 – 117.00	The dollar look set to continue moving bullishly on expectations about the policies of President-Elect Donald Trump. Furthermore, the U.S. continues to post strong economic indicators, so if the FOMC releases some hawkish federal funds rate projections at its next meeting, the dollar/yen pair will probably rise further.
Tsuruta	110.00 – 117.00	If the FOMC lifts interest rates at its much-anticipated December meeting, this will accord with market expectations, so a sense of relief will probably lead to dollar buying, with the dollar/yen pair rising as a result. U.S. long-term interest rates seem to be taking a breather at present, but if they start rising again, the currency pair is likely to be tested on the topside.

Bearish on the dollar (5 bears: 105.00–117.00, Core: 106.00–117.00)

Yamashita	105.00 – 115.00	With the FRB publicly unable to keep a lid on dollar strength before any rate hikes, if it does lift rates in December, it will probably take some action to correct the trend of dollar bullishness. The markets have already factored in an FOMC rate hike, so the dollar/yen pair's subsequent rise will be short-lived.
Yano	108.00 – 117.00	In the wake of the presidential election, the dollar seems to have climbed as interest rates rose on bond selling, but this trend now seems to be peaking out. The markets have already factored in a December FOMC rate hike, so any subsequent dollar bullishness will be muted. After these factors are out of the way, the dollar/yen pair's topside will gradually grow heavier in reaction to the previous overshoot.
Nishijima	106.00 – 117.00	With a December FOMC rate hike seeming more-or-less certain, the dollar could rise further with an eye on bullish U.S. economic indicators, with the dollar/yen pair's topside set to rise commensurately, so caution will be needed. However, with the markets watching out for some correction to the Trump Rally, the pair will gradually be pushed lower after the FOMC meeting as the adjustive trend picks up pace.
Shimoyama	107.00 – 117.00	There will probably be some adjustment to the trend of dollar bullishness. The Dollar Index is moving above 100, but rather than being grounded in reality, this seems mainly due to speculation about the upcoming Trump administration. In particular, short-term investors appear to be piling up dollar long positions, but with the FOMC meeting and the end of the year looming, the dollar is likely to see some adjustive selling.
Moriya	106.00 – 116.00	The dollar/yen pair rose sharply in the wake of the U.S. presidential election, but this seems to be mainly speculation led, so as adjustive moves gradually grow more pronounced, the pair will probably grow heavier on the topside. The markets have factored in a December FOMC rate hike, so any dollar buying on expectations for such a move will probably be limited.

Tomokazu Moriya, Forex Sales, Forex Department

Euro – December 2016

Expected Ranges **Against the US$: US$1.0200–1.0800**
Against the yen: JPY116.00–122.00

1. Review of the Previous Month

In November, the euro/dollar pair fell sharply after the U.S. presidential election.

It began the month trading at the upper-$1.09 mark on November 1. With opinion polls showing Donald Trump drawing considerably closer to Hillary Clinton in the approval ratings, the greenback was sold and the pair rose to the upper-$1.10 level. It climbed to the lower-$1.11 mark on November 2 after the markets reacted warmly to the bullish results of the eurozone manufacturing PMI for October. It was then bought to the lower-$1.11 level on November 3. The U.S. employment data for October was released on November 4. This was broadly in line with market expectations, so it's impact was muted, but the pair then rose to the mid-$1.11 mark.

On November 7, the head of the FBI said the agency would not prosecute Clinton over the use of a private e-mail server. The dollar was subsequently bought, with the currency pair dropping to the lower-$1.10 level. It then traded in a range around $1.10 on November 8 with the markets in wait-and-see mode. As the presidential votes started to be counted on November 9, the pair dipped to the upper-$1.09 mark on a growing sense that Clinton had the election in the bag. However, the dollar was then sold on a dawning sense that Trump might be heading to victory, with the pair rising sharply to a monthly high of $1.1300. Once a Trump victory was declared, though, the dollar was bought on speculation that the U.S. economy might be boosted by fiscal mobilization and big tax cuts, with the currency pair subsequently dropping to the lower-$1.09 level. The greenback continued to be bought over November 10–11, with the pair tumbling to the lower-$1.08 mark. Amid ongoing dollar buying on November 14, the pair fell to the lower-$1.07 mark. With European interest rates rising on November 15, the pair strengthened to the lower-$1.08 level, but the dollar was then bought as crude oil prices rallied on expectations that the upcoming OPEC meeting would agree to curtail production, with the pair subsequently pushed back to the lower-$1.07 mark. In her testimony to Congress over November 16–18, FRB Chair Janet Yellen hinted at a rate hike before the year's end, so the dollar remained bullish and the pair slid to the mid-$1.05 level.

On November 21, following comments by ECB President Mario Draghi, speculation grew that the ECB Governing Council would extend the timeframe of its asset purchasing program when it met in December. As a result, the pair fell to the upper-$1.05 level. It rose to the mid-$1.06 mark for a time on November 22, but it was then sold to the upper-$1.05 level on falling European interest rates. It continued falling to the lower-$1.05 mark on November 23 as the dollar was bought on the bullish results of some U.S. economic indicators. With the U.S. on Thanksgiving holidays on November 24, the pair hit a monthly low of $1.0518, though it bounced back toward close of trading. The euro was bought back on November 25, before the weekend, with the pair rallying to the upper-$1.05 level.

On November 28, the pair rose to the upper-$1.06 mark on position adjustments, though it was then pushed back to the upper-$1.05 level. On November 29, though, it gained to the mid-$1.06 level on reports that the ECB would temporarily ratchet up its purchases of Italian government bonds. The greenback was bought on November 30 after the OPEC meeting agreed to cut output, with the pair closing the month at the upper-$1.05 level.

2. Outlook for This Month:

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

When it comes to factors impacting the pair, attention is focusing on the Italian referendum, set for Sunday, December 4. The referendum is about revising the constitution to curb the power of Italy’s upper house, but with Prime Minister Matteo Renzi saying he would resign if he lost the vote, it is also a vote of confidence in Renzi. Opinion polls are currently pointing to a victory for the no camp. If this is what happens, the markets will focus on rising political risk within the eurozone. A restructuring plan (involving capital increases and bad debt disposal, etc.) for a major Italian bank is penciled in after the vote, so if it seems the vote will negatively impact this process, this will probably lead to euro selling. However, even if the polls are confounded and Renzi wins the vote, a number of political events are lined up for the eurozone next year, so this result alone would not be enough to wipe away political risk in the eurozone.

The ECB Governing Council is set to meet on December 8. At one point, speculation grew that the ECB would begin tapering. However, judging from comments by ECB President Mario Draghi and the minutes to the ECB Governing Council meeting released last month, it seems more likely that the ECB will continue to pursue an accommodative policy. The Governing Council is expected to extend the timeframe of its asset purchasing program (APP) when it meets this month. If it indicates again that the ECB remains committed to easing, this will be regarded as a factor weighing down the pair’s topside.

Dollar trends will also have a big impact on the euro/dollar pair’s movements. The pair fell sharply in the wake of last month’s U.S. presidential election. This came as the dollar was bought when U.S. interest rates rose on speculation about the large-scale infrastructure investment and big tax cuts espoused by Donald Trump. The dollar’s current bullishness seems purely down to this speculation about Trump’s policies, so there are doubts about how long this trend will last, but Trump is unlikely to make any specific comments about policy until he assumes power in January, so even if there is a phase of adjustment, the dollar is still likely to be bought on this sense of anticipation. Furthermore, it seems almost certain that the FOMC will lift interest rates this month. Recently, speculation has flared up not only about a December rate hike but also about further hikes from 2017 onwards, so if a December rate hike is implemented and the dollar is sold on a sense that a major factor is now out of the way, this selling will be limited.

Thus the euro/dollar pair is expected to move with a heavy topside this month on political risk and interest-rate differentials.

Dealers' Market Forecast

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

Bullish on the euro (2 bulls: 1.0400–1.1200, Core: 1.0450–1.1100)

Yano	1.0400 – 1.1000	The dollar rose in the wake of the U.S. presidential election. This was met with some adjustment, but this trend now seems to be easing off. Nonetheless, the markets have already factored in an FOMC rate hike, so any dollar bullishness from here on will be capped. Furthermore, Italy is set to hold a referendum and the ECB may extend its QE program, but if these factors are dealt with smoothly, investors will gradually try to push the euro back up.
Shimoyama	1.0500 – 1.1200	There will probably be some adjustment to the trend of dollar bullishness. The Dollar Index is moving above 100, but rather than being grounded in reality, this seems mainly due to speculation about the upcoming Trump administration. Short-term investors appear to be piling up dollar long positions, but there are also concerns of a rebound at the key $1.05 mark. With the FOMC meeting and the end of the year looming, the dollar will steadily edge lower.

Bearish on the euro (9 bears: 0.9900–1.1800, Core: 1.0200–1.0800)

Fujisaki	1.0200 – 1.0900	The euro/dollar pair will move with a heavy topside on: expectations for an FRB rate hike; speculation about fiscal mobilization by a Trump government; and rising political risk in Europe. If the Italian referendum leads to the resignation of the current government, the markets will focus on political risk in the eurozone, with the euro potentially crashing as a result.
Kato	0.9900 – 1.1800	Starting with the Italian referendum, there are a number of political events lined up in France and so on from here on. Uncertainty about the future of the euro looks set to linger on. With liquidity drying up in the run up to the year's end, speculators may lead a drive to push the euro/dollar pair to parity.
Yamashita	1.0200 – 1.0900	With a final agreement on a Greek bailout set to be hammered out by the end of the year, creditors are growing impatient with Greece's stalled fiscal reconstruction efforts, so the situation remains fraught with uncertainty. With ECB President Mario Draghi also dropping stronger hints about further ECB easing, the euro/dollar pair looks set to trade with a heavy topside.
Takada	1.0200 – 1.0800	With speculation rising about further ECB easing, the euro/dollar pair looks set to move with a heavy topside on expectations for U.S. rate hikes from 2017 onwards. With a number of political events looming in Italy this month, France next spring and Germany next autumn, uncertainty is rising and investors will find it hard to actively buy the euro.
Sato	1.0300 – 1.0800	The dollar will continue to move firmly on speculation about the policies of the upcoming Trump administration and expectations for rate hikes. The euro/dollar pair will also move erratically on events like the Italian referendum and potential moves by the ECB to extend its QE program.
Nishijima	1.0200 – 1.0900	Following on from Brexit and the Trump victory, is seems highly likely that the upcoming Italian referendum will also point to the rise of populism. Amid growing concerns about Europe-led risk aversion, the euro/dollar pair will probably face selling pressure at times in December. If the ECB decides to extend its easing timeframe, the pair will grow even heavier.
Nishitani	1.0200 – 1.0800	Dollar bullishness looks set to continue for a while. Attention will be focused on whether the euro/dollar pair will be pushed below its support line at $1.05. If it does breach this level, it may well fall at an accelerating pace, so caution will be needed.
Moriya	1.0200 – 1.0800	The momentum is with the no camp in the Italian referendum, with the euro likely to be sold on rising political risk in the eurozone. Furthermore, the ECB looks set to continue easing while the FOMC looks certain to lift rates. The euro will be susceptible to selling on the political and monetary policy front.
Tsuruta	1.0300 – 1.0800	With the U.S. expected to see a rate hike in December, the markets are also likely to focus on political risk in the eurozone, so the dollar will be bought and the euro sold. As the dollar moves bullishly on the December rate hike, the eurozone will face a series of political events, including the Italian referendum. Amid a rise in populism, the euro/dollar pair will probably be sold on risk aversion.

Taihei Yamamoto, Europe Treasury Department

British Pound – December 2016

Expected Ranges	**Against the US$:**	**US$1.1800–1.2600**
	Against the yen:	**JPY130.00–146.00**

1. Review of the Previous Month

The pound/dollar pair moved flatly in November. It opened the month at the lower-$1.22 mark. Uncertainty then flared up as U.S. opinion polls showed Donald Trump's approval ratings surpassing Hillary Clinton's after the private mail issue flared up again. In the UK, meanwhile, the Construction PMI for October hit its highest level for seven months at 52.6 (forecast: 51.8), with the Services PMI for October also improving to 54.5 (forecast: 52.5). The difference in risk sentiments in the U.S. and UK saw the currency pair rising to $1.2365. The UK High Court then decreed that Article 50 could not be invoked without prior approval from Parliament, with fears of a Hard Brexit subsequently easing off. The minutes to the Bank of England (BOE) Monetary Policy Committee (MPC) meeting were also released around this time. They revealed that there were limits to how much inflation the BOE was prepared to accept. They also hinted that the BOE might shift monetary policy in the direction of rate hikes, depending on inflationary trends. All of this saw the currency pair rising to $1.2558, its highest level since October 7 (when the flash crash occurred). The dollar was then bought and the pair fell to $1.2352 after Clinton's approval ratings improved when the FBI called off its renewed investigation into her use of a private e-mail server. In the end, and to the surprise of many, the Republican party candidate Donald Trump won the majority vote in the U.S. presidential election on November 8. When Trump's victory was confirmed on November 9, the dollar was sold to $1.2547 against the pound during Asian trading time on concerns about protectionism. When European investors joined the fray, though, the atmosphere changed completely. Perhaps the markets were pleased the Republicans had won a majority in both houses of Congress, thus avoiding the situation where each house is controlled by a different party. Either way, the mood shifted to one of risk appetite, with bonds sold, stocks bought and the dollar also bouncing back to its level from before the election. UK Prime Minister Theresa May and Donald Trump had their first telephone conversation on November 10. During this, they agreed that "the US-UK relationship was very important and very special" and they vowed to strengthen it. This raised the possibility that the two nations might accelerate trade negotiations with an eye on Brexit. All of this saw the pound/dollar pair rising to $1.2673 toward the weekend. During the following week, a British newspaper said the UK government was trying to find a legal interpretation that would allow it to cancel Article 50 proceedings after the article had been invoked. With uncertainty about the future rising again, the pair dropped to $1.2380 after the UK CPI data for October hit +0.9% year-on-year, down on forecasts for a rise in the region of +1.1% y-o-y. The UK retail sales figure for October was released on November 17.

With clothes selling briskly on the cold winter weather, the figure hit +7.4% y-o-y (forecast: +5.3%), the fastest growth in 14 years. The currency pair was temporarily bought back to $1.2507 as a result. However, it then dropped to $1.2302 as the Dollar Index hit its highest level in 13-and-a-half years. This happened after expectations for a rate hike grew following a speech by FRB Chair Janet Yellen. In the week beginning November 21, Theresa May spoke about reaching a transitional deal with the EU to give Britain the time to build a new trading relationship even after the two-year negotiating period came to an end. Expectations for fiscal stimulus then grew after UK Chancellor Phillip Hammond remarked in his budget speech that he expected to borrow £122 billion more over the next five years. As a result, the pound/dollar pair was bought back to around $1.25.

2. Outlook for This Month:

The pound/dollar pair is expected to trade with a heavy topside in December.

The IMF will be releasing data on the currency composition of foreign exchange reserves at the end of December. Credit rating agencies have warned that the UK's rating could be downgraded if sterling's share in each central bank's reserves drops below 3%, so the data will attract considerable attention.

The situation is likely to remain unclear when it comes to Brexit. On December 5, the UK Supreme Court will release its decision on whether Prime Minister Theresa May has the right to invoke Article 50 without consulting parliament. However, one of the sitting judges has suggested 'comprehensive legislation might be required to trigger Article 50', a process that could delay the invocation by up to two years. News has also emerged that the UK government is searching for a legal interpretation that would allow it to cancel Brexit proceedings using a parliamentary vote, even after Article 50 has been invoked. If this interpretation is feasible, it means it will be next-to-impossible to predict how things will develop from here on. If the UK's position remains up in the air, this will dampen enthusiasm for investing in the UK and more companies may shift their headquarters to the European mainland, without waiting for the UK to officially leave the EU.

One survey says £65.5 billion worth of investments have been cancelled or postponed since the referendum. Though corporate profits in the UK have dipped by 80% over the past five years, the FTSE100 has risen by 30%, with stock prices seemingly out of kilter with reality. From here on, there is a risk the pound could face selling pressure as firms pull out of the UK. It is hard to know what the UK government's real intentions are, but given the split between the leave and remain camps, it seems the government is unsure about what to do as it searches for a compromise that would placate the remainers and allow it to begin Brexit proceedings. On November 15, a government memo entitled 'Brexit Update (as of November 7)' was leaked to a British newspaper. This stated that Brexit would require 500 related projects and 30,000 extra staff, with the government struggling to put together the necessary personnel or funding. The memo also said it would take at least six months to put together a negotiating position, with the government unlikely to be ready by the time the start of the Brexit proceedings roll around in March 2017. It also pointed to a split between those who wanted to focus on curbing immigration, a camp led by Foreign Secretary Boris Johnson, and those who prioritized access to the single market, a camp led by Chancellor Phillip Hammond. The May administration has positioned the steadfast implementation of Brexit as its number one priority, so if it delays invoking Article 50 amid a complete lack of any plan about how to proceed, it will lose its very raison d’etre. Paddy Power, a bookmaker, has put the odds of a general election on 2017 at 46% and the odds of Article 50 not being invoked at 28% (as of the end of November). For the UK, Brexit is a troublesome issue with no end in sight. With the government also lacking the drive to force things along, the pound is likely to slide further in December.

Miki Yamaguchi, Sydney Branch

Australian Dollar – December 2016

Expected Ranges	**Against the US$:**	**US$0.7250–0.7600**
	Against the yen:	**JPY80.00–86.00**

1. Review of the Previous Month

The AUD/USD pair fell in November.

It began the month trading around USD0.76 mark on November 1. The board of the Reserve Bank of Australia (RBA) kept the cash rate fixed at its much-anticipated meeting. Its statement was also essentially the same as the previous one and it did not drop any hints about further easing. As a result, the pair climbed to the upper-USD0.76 level. The FOMC met the following day. As expected, it kept interest rates fixed, so the impact on the currency pair was negligible. The RBA's Quarterly Statement on Monetary Policy was released on November 4. The growth rate and inflation forecasts were more-or-less unchanged on August's report, so the pair continued to trade at the USD0.76 mark. With the U.S. presidential election looming on November 8, risk appetite increased the following week in anticipation of a Clinton victory after the FBI said it would not be prosecuting her over the private server issue, and the pair climbed to the USD0.77 mark. The pair hit a high of USD0.7778 before voting opened on November 8. As the result gradually became clearer the following day, risk aversion increased on a likely Trump victory, with the pair crashing temporarily to USD0.7580. However, Trump gave a relatively magnanimous victory speech that contrasted with some of his extreme statements in the past, so risk aversion wore off and the markets switched into risk-on mode, with the pair rising to the USD0.77 level again.

Yields on U.S. treasuries skyrocketed on November 10 on growing speculation about increased fiscal spending as part of Trump's economic policies (Trumponomics). The greenback was bought in the currency markets, with the pair crashing to USD0.75. As treasury yields continued to rise and the U.S. dollar continued to be bought, the currency pair moved with a heavy topside at USD0.75. The greenback rose on November 16 on hawkish (pro-tightening) comment by an FRB official and news that the Trump policy team would be establishing an 'infrastructure bank.' This saw the AUD/USD pair dropping below the key USD0.75 mark. It fell below USD0.74 on November 17 after FRB Chair Janet Yellen said interest rates might be lifted 'relatively soon.' The greenback was bought on November 18 as the U.S. short-term interest rate futures market factored in a 96% chance of a December rate hike. As a result, the pair fell to the lower-USD0.73 level.

This trend continued on November 21, with the pair hitting a low of USD0.7311. When the pair hit its lowest point in roughly five months, there was a sense it was now at a good price, so the Australian unit was bought and the pair bounced back to USD0.74.

2. Outlook for This Month:

The AUD/USD pair may have its downside tested further in December.

Against most expectations, Donald Trump won a presidential election which was essentially a vote for the least-worst candidate (there were no particularly positive factors, so voters were forced to choose for the candidate with the least amount of negative factors). Clinton's loss was partially attributable to the private mail scandal, but the vote was also a reflection of a growing sense of discontent and dissatisfaction among America's struggling middle classes about the political system. Trump caught voters' hearts with his comments about expelling immigrants and introducing protectionist policies. The spread of nationalism and anti-globalization is something the presidential election shared with the June Brexit vote. There are now concerns about the series of referendums and elections lined up in Europe from here on.

A concern in the short term will be the direction of U.S. long-term interest rates. These rates and the U.S. dollar are rising on growing speculation about fiscal expansion when Trump assumes power. Trumponomics is said to share many similarities with Reaganomics, which held sway on the U.S. in the early 1980s. The characteristics of Trumponomics are: (1) the largest tax cuts since Reaganomics, (2) large-scale infrastructure spending, (3) a repatriation of overseas investment back into the U.S., (4) business support through deregulation, and (5) protectionist trade policies. Trumponomics also prioritizes job creation and better salaries for the white working class demographic who supported Trump. Under these circumstances, Trump will probably adopt a monetary policy that focuses on keeping the U.S. dollar low, so it is hard to imagine the dollar remaining bullish for a sustained period, like it did with Reaganomics.

Turning to Australia, and neither the RBA board meeting not the RBA's Quarterly Statement on Monetary Policy dropped any hints about further easing, so it is likely events will continue to be determined by inflationary trends in Australia. The RBA's inflation target is +2–3%, but the Quarterly Statement predicted inflation of +1.5–2.5% up until 2018. The likelihood of a rate cut will probably be determined by whether the CPI data released from 2017 onwards drops below +1.5%. The next CPI announcement is set for the end of January, so the RBA will probably keep rates fixed when it meets this month.

The current movement of U.S. long-term interest rates belies the exchange rate policy pursued by the U.S., so it is becoming very difficult to predict how the currency markets will move. Though the RBA is expected to keep rates fixed (expectations for an early rate cut have declined), U.S. long-term interest rates continue to climb, so the AUD/USD pair looks set to continue moving bearishly this month.

Yukihiro Mitsuno, Americas Treasury Department

Canadian Dollar – December 2016

Expected Ranges	**Against the US$:**	**C$1.3150–1.3660**
	Against the yen:	**JPY80.30–88.80**

1. Review of the Previous Month

The USD/CAD pair trended upward toward mid-November, but on the whole it moved in a range around the C$1.34 mark.

The pair opened the month at C$1.3410. There were hopes that OPEC would agree to cut output when it met, but there was also growing skepticism about moves by oil-producing nations to coordinate production cuts, so the pair rose to C$1.3427. Canada then released its GDP data for August. This was in line with expectations, so the reaction of the currency pair was muted. However, the greenback was then sold and the pair dropped back to C$1.3353 after the FBI reopened its investigation into Hillary Clinton's use of a private mail server. Canada's employment data for October was then released. Though the net change in employment figure was up significantly on forecasts, this was due to a large rise in part-time employment, so the markets reacted badly and the pair rose to C$1.3466.

Risk appetite increased before the U.S. presidential election as opinion polls and so on pointed to a Clinton victory, with the pair dipping to a monthly low of C$1.3265. However, it then rose to C$1.3525 as Trump surprised the markets by clinching victory. It then dropped to C$1.3345 for a time, but with a Trump presidency looming, it rose to C$1.3509 on the possibility that NAFTA might be revised, with the pair also boosted by an article that said the probability of a Bank of Canada rate cut in December had risen from 20% to 33%. The U.S. dollar saw more buying on the better-than-expected results of the November Michigan Consumer Sentiment Index, with the pair rising to C$1.3548.

The greenback continued to be bought on expectations that the U.S. inflation rate would rise under a Trump presidency, with the pair subsequently rising to a high of C$1.3589. The pair dropped back to C$1.3405 the following day as crude oil prices rose on growing speculation that OPEC would agree to cut output when it met at the month's end. Though Canada's core CPI data for October fell slightly below forecasts, the headline figure was as expected. With the markets also focusing on a substantial option cut at C$1.3500, the pair dropped back to C$1.3494.

It then fell to C$1.3378 toward the month's end as the price of WTI crude oil rose to $49 on expectations for a cut in production at the OPEC meeting on November 30. Canada's month-on-month retail sales data for September was released thereafter. This fell broadly in line with prior forecasts, while the previous month's data was revised upwards. However, the m-o-m retail figure (excluding automobiles) was down sharply on expectations. With the U.S. durable goods orders indicator for October and the Michigan Consumer Sentiment Index for November also beating expectations, the

USD/CAD pair rose to C$1.3517. It then fell to C$1.3369 as the price of WTI crude rocketed on expectations for an OPEC production cut. Canada's GDP data for September topped market expectations, but with U.S. long-term interest rates rising to the 2.38 mark, the greenback was bought and the pair rose to close the month at C$1.3437.

2. Outlook for This Month:

The USD/CAD pair is expected to edge higher this month.

A number of events are lined up, such as the release of the U.S. employment data for November, a vote recount requested by the Clinton camp, and an Italian referendum. However, the pair has been rising on U.S.-dollar buying since the end of summer and none of these events looks likely to overturn this trend. An FOMC rate hike in December seems a formality and the employment data is unlikely to have much of an impact unless the nonfarm payrolls figure drops substantially below market expectations for a rise in the region of 180,000. The recount demand temporarily poured cold water on the currency pair's Trump-related rise, but it is hard to imagine the results being overturned in all three recount states (including Pennsylvania), so the trend of U.S.-dollar buying/Canadian-dollar selling looks set to continue. Trump is in the process of forming his new cabinet. His selections have sprung no surprises so far, and unless something dramatic happens from here on, the process is unlikely to become a risk factor. If Trump revises NAFTA as promised, this will be a heavy blow for Canada, which relies on the U.S. for the lion's share of its exports. Based on the above, the post-election trend of rising U.S. interest rates and a bullish U.S. dollar looks set to continue from here on.

When OPEC met on November 30, it agreed to cut production by 1.2 million barrels a day, with Saudi Arabia also extending Iran some special consideration. Non-OPEC nations like Russia also agreed to coordinated cuts and they will probably be asked to curb output by 600,000 barrels a day. The markets reacted warmly to this result and the price of WTI crude rose to around $50. This rise has only been met with some limited Canadian-dollar buying, but if WTI crude prices move firmly in the wake of the production cut, this will probably act to hold down the USD/CAD pair's topside, even if only slightly. The Canadian unit will also be boosted somewhat by a decline in volatility on the back of the bullish U.S. economic outlook.

The greenback will continue to be bought across the board, but this will not be totally one-sided, so the USD/CAD pair is likely to edge higher within a range.

Tomohiro Yamaguchi, Seoul Treasury Office

Korean Won – December 2016

Expected Ranges	**Against the US$:**	**KRW1,140–1,220**
	Against the yen:	**JPY9.26–10.10 (KRW100)**
		(KRW9.90–10.80)

1. Review of the Previous Month

In November the dollar/won pair rose in the wake of the U.S. presidential election.

It fell before the election took place on November 8. On October 31, news emerged that the FBI would be reopening its investigation into Hillary Clinton's use of a private email server. As a result, the pair opened trading on November 1 at KRW1143.0. During overseas trading time, the Washington Post and the ABC network reported that Donald Trump had jumped above Clinton in the opinion polls. As the markets focused on Trump risk, the pair climbed to KRW1152 on November 2. However, during overseas trading time on the same day, the FOMC decided to keep policy rates fixed, as expected, while the meeting passing uneventfully, apart from a few tweaks to the FOMC's statement. On November 7, meanwhile, FBI Director James Comey confirmed that Clinton had not committed a crime with her use of private email. As expectations for a Clinton win flared up again, the pair fell towards election day.

The pair then rose sharply following the election. As the preliminary results came in during Seoul trading time on November 9, it was reported that Clinton was leading in the battleground states of Ohio and Florida. As a result, the pair fell to a monthly low of KRW1128.7, down 15.8 won on the end of October. As voting counting began, though, it became clear Trump was in the ascendancy. With the dollar/yen pair falling sharply, the dollar/won pair rallied sharply. U.S. interest rates shot up after Trump's victory speech as attention focused on Trump's expansionary fiscal policies, including infrastructure spending and tax cuts. On November 17, FRB Chair Janet Yellen said interest rates might need to be lifted 'relatively soon.' This also pushed the dollar upwards, with the dollar/won pair rising further. On November 20, South Korean prosecutors said President Park Geun-hye had conspired with her friend Choi Soon-sil and two other suspects in an extortion case. Political uncertainty also ratcheted up on November 21 when the main opposition party said it would review the conditions to start impeachment proceedings against the president. With an auction of 20-year South Korean government bonds also performing poorly, the pair rose to a monthly high of KRW1187.0 on November 21, up +42.5 won.

The pair stopped rising late November. On November 21, the Bank of Korea moved to stabilize interest rates by buying government bonds, the first such move since 2008. With the dollar/yen pair's rise stalling after an earthquake occurred off the coast of Fukushima on November 22, the dollar/won pair also stopped climbing. U.S. interest rates also stopped rising for a time, so the pair's gains were pared back and it closed the month at KRW1169.1, up +24.6 won on the end of October.

2. Outlook for This Month:

In December, the dollar/won pair will continue to trade with an eye on the greenback's movements and it may strengthen further.

President Park's resignation announcement

South Korean President Park Geun-hye may step down soon, either through resignation or dismissal via impeachment. In a national address on November 29, the President said she would "follow the National Assembly's decision about my course of resignation…including cutting short my remaining term." There are laws in place about extending a president's term of office or reappointing a president, but there is no legislation about shortening a president's term. As a result, though there has been no statement about how Park will resign, new legislation will be required that deals with changing or shortening the terms of presidents, including Park. This procedure will take some time and there are loud voices accusing Park of just trying to buy time and avoid criticism.

Proceedings until Park is dismissed from office

At the moment, the three opposition parties are preparing the groundwork to propose an impeachment motion over December 2–9. The opposition looks likely to propose impeachment, but any such move will require the support of at least 28 members of the ruling Saenuri Party. National feelings are high and the Saenuri Party will find it hard to protect the president, but one potential sticking point will be what happens after a decision is made to impeach, so there are still doubts about whether some members of the ruling party can be persuaded to support the move. The impeachment process is as follows.

(1) An impeachment motion will be accepted with a simple majority of the 300-member National Assembly. (2) A secret vote on the motion will be held from 24 hours to 72 hours after the motion is tabled. The motion will pass if it receives the support of two thirds of the National Assembly (200 people). The role of the president will be partially or completely suspended until the final decision. (3) The Constitutional Court will reach a decision within 180 days. The president will then be dismissed with the support of two thirds of the sitting judges, with the election for the next president held within 60 days.

If the role of the president is partially or completely suspended due to dismissal

The Prime Minister Hwang Kyo-ahn will essentially take over the presidential office and functions. However, this will probably lead to political instability. Constitutional opinions are divided as to how far the prime minister's powers will extend, for instance, while two opposition parties are demanding the installation of a prime minister recommended by them.

Candidates for the next president

At one time, the favorite seemed to be Ban Ki-moon, the current Secretary-General of the United Nations (he steps down at the end of the year), but he is close to the ruling party, so recent polls point to growing support for Moon Jae-in, the candidate of the opposition Democratic party. Another name in the frame is Ahn Cheol-soo, the candidate of the People’s Party. Both these candidates lost to Park Geun-hye in the last presidential election.

Junji Tsujino, Taipei Treasury Office

New Taiwan Dollar – December 2016

Expected Ranges	**Against the US$:**	**NT$31.25–32.50**
	Against the yen:	**JPY3.36–3.70**

1. Review of the Previous Month

The USD/TWD pair strengthened in November as the greenback moved bullishly on the victory of Donald Trump in the U.S. presidential election.

The pair began the month trading at the upper-TWD31.50 mark. There was an FOMC meeting at the start of the month, but with the U.S. presidential election looming the following week, the U.S. unit moved bearishly on uncertainty. However, Taiwanese stocks also fell over November 1–2, so the pair moved at the TWD31.50 mark. It then fell to TWD31.40 on November 3 as the greenback weakened further. It swung to and fro around TWD31.40 on November 4 in advance of the release of the U.S. employment data for October. The U.S. dollar rebounded on November 7 after the FBI said it would not be prosecuting Hillary Clinton over her use of a private e-mail server. The pair subsequently strengthened to TWD31.50. It remained at this level over November 8. The U.S. dollar plummeted after voting began in the presidential election on November 9 as it became clear that Donald Trump had won. As Taiwanese stocks fell sharply, the pair then rose to the upper-TWD31.50 mark, but as the markets regained composure, the Taiwan dollar began rising and the pair fell back to TWD31.40.

The greenback rose on November 10 on speculation about the policies of the new Trump administration. The reaction of the USD/TWD pair was kept in check by bullish Taiwanese stocks, but it still rose to TWD31.60. Taiwanese stocks began falling on November 11 in tandem with movements in other emerging markets, with the Taiwanese unit moving more bearishly and the currency pair gaining to around TWD31.80. The U.S. dollar remained bullish over November 14–17, but with Taiwanese stocks bouncing back, the pair's movements were muted and it moved to and fro around TWD31.80. The U.S. dollar rose on November 18 in the wake of FRB Chair Janet Yellen's testimony to Congress the previous day. The pair traded around TWD32.00.

The greenback rose from November 21–25, but Taiwanese stocks also moved strongly, so with the Taiwan dollar facing a mix of bullish and bearish factors, the currency pair swung back and forth between TWD31.80–32.00. With an OPEC meeting looming, investors adjusted their U.S.-dollar long positions on November 28, with the USD/TWD pair sliding. It dropped back to TWD31.70, but it then returned to TWD31.80 on November 30 and it continued trading with a lack of direction at the upper-TWD31 mark.

2. Outlook for This Month:

The USD/TWD pair is expected to rise slightly in December.

As with September, Taiwan's industrial production and new export orders data moved bearishly in October. This was due to a seasonal dip in the key semiconductor data, and it remains difficult to be optimistic about the future. The Bank of Taiwan (BOT) will be holding a regular meeting this month. The environment is still not conducive to rate hikes, so as with September, the BOT will probably opt to keep rates fixed. The Taiwan Capitalization Weighted Stock Index continues to move at highs, but foreign investors switched to selling on balance last month, with a further TWD97.2 billion flowing out of Taiwan.

The USD/TWD pair's movements will continue to be shaped by U.S.-dollar trends in December. The U.S. dollar unexpectedly rose in the wake of Trump's victory and it is hard to predict how the greenback will move from here on. A lot will probably depend on market sentiments. Under these circumstances, market participants should pay attention to the U.S. economy index, the Italian referendum and the FOMC meeting. The greenback's strength could hit the economy, so attention will focus on whether any signs of a downswing are manifested in the Manufacturing ISM Report on Business and so on. There are also concerns that the Italian referendum might damage market sentiments. Investors will also be watching to see whether the latest interest rate and inflation forecasts of FOMC members reflect the recent rise in interest rates and inflationary expectations.

The Taiwan dollar will be susceptible to bearishness at times in the face of U.S. dollar bullishness. When the greenback does fall, the USD/TWD pair slide is likely to be capped at the lower-TWD31 level. Though the Taiwan unit fell from mid-November onwards, its slide was muted compared to other emerging market currencies. Some have pointed to interest rates to explain this phenomenon, with mid- to long-term Taiwan interest rates rising substantially, albeit not as fast as rates in the U.S. In mid-November, though, interest rates in the 5-year swap market rose to a level that would appear inconsistent unless the BOT were to lift rates consistently every three months. From late November onwards, meanwhile, there were phases where Taiwanese interest rates fell while those in the U.S. rose. As such, it seems that Taiwan-dollar interest rates have peaked out, so if U.S. interest rates rise further and the greenback moves bullishly from here on, the Taiwan dollar will probably weaken on widening interest-rate differentials. On the other hand, if U.S. interest rates fall and the greenback weakens, Taiwan-dollar rates will passively follow suit, so any Taiwan-dollar bullishness will be muted, with the USD/TWD pair likely to shift to the lower-TWD31 mark.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – December 2016

Expected Ranges	**Against the US$:**	**HK$ 7.7500–7.7650**
	Against the yen:	**JPY 14.17–14.83**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in November

Despite the appreciation of the U.S. dollar/Japanese yen exchange rate as a result of the victory of Donald Trump in the U.S. presidential election, the U.S. dollar/Hong Kong dollar exchange rate remained generally within a narrow range between HKD 7.754 and HKD 7.760. As the interest rate differential between the U.S. dollar and the Hong Kong dollar remained stable, the pressure for capital outflow did not strengthen. On the other hand, the depreciation of the Chinese yuan accelerated causing capital inflow from Mainland China to Hong Kong, which supported the Hong Kong dollar exchange market. The one-year U.S. dollar/Hong Kong dollar forward rate once returned to the zero level for the first time since June. This is considered to be a result of the fact that market participants did not actively sell the U.S. dollar against the Hong Kong dollar, expecting the U.S. dollar to appreciate in the times ahead.

Hong Kong dollar interest rate market in November

The three-month Hong Kong dollar HIBOR, the benchmark interest rate, rose to the high level of 0.66% for the first time since February. This was in reaction to the appreciation of the three-month U.S. dollar LIBOR as a result of expectations for rapid interest rate hikes by the FRB in the times ahead after the victory by Donald Trump in the U.S. presidential election. The interest rate differential between the Hong Kong dollar HIBOR and the U.S. dollar LIBOR remained almost at the same level as that observed in the previous month, at around -0.26%. Also, the current deposit account balance of the Hong Kong Monetary Authority (HKMA), as an index showing the liquidity level in the interbank market, remained high, at HKD 260 billion. Then, the Hong Kong dollar swap interest rate appreciated following the appreciation of the U.S. dollar swap interest rate. In addition, the differential between the two-year Hong Kong dollar swap interest rate and the 10-year Hong Kong dollar swap interest rate expanded from the 60 basis points observed in October to 90 basis points. On the other hand, inflation pressure strengthened in the U.S., leading the U.S. dollar swap interest rate to appreciate rapidly. As a result, the differential between the five-year Hong Kong dollar swap interest rate and the five-year U.S. dollar swap interest rate expanded from -16 basis points to -30 basis points.

Hong Kong stock market in November

The benchmark Hang Seng Index recovered after the victory by Donald Trump in the U.S. presidential election and remained above 22,000. Stock prices in the U.S. exceeded the highest level recently observed, and the Shanghai Stock Exchange Composite Index has also been on an uptrend after the sharp depreciation observed in January. The Hang Seng Index has also been slowly recovering from a decline in the first half of November. While the depreciation of the Chinese yuan is accelerating, an increasing amount of capital has been flowing from Shanghai to Hong Kong. Also, the utilization rate of the daily investment limit increased from the 5% observed in October to 10%. Prices in the commodities sector continued appreciating with the strengthening inflation pressure caused by active fiscal measures suggested by Donald Trump, while prices in the real estate sector declined as a result of mounting expectations for rapid interest rate hikes by the FRB.

2. Outlook for This Month:

Hong Kong dollar spot exchange market in December

The U.S. dollar/Hong Kong dollar exchange rate is expected to remain within a narrow range between HKD7.750 and HKD 7.7650, as was the case in the previous month. If the interest rate differential between the Hong Kong dollar and the U.S. dollar remains stable, along with the interest rate hikes by the FRB, it is not very likely for funds to flow out of Hong Kong into the U.S. The Hong Kong dollar is thus unlikely to depreciate sharply against the U.S. dollar. While outlook for the Chinese yuan has been increasingly pessimistic, capital inflow from Mainland China to Hong Kong would support the Hong Kong dollar exchange market. Furthermore, the introduction of the Shenzhen-Hong Kong Stock Connect is scheduled for December, and is likely to attract more capital inflow. It should be warned that if the Hong Kong dollar interest rates remain high, the real estate and stock markets would enter an adjustment phase, strengthening pressure for capital outflow. Also, the one-year Hong Kong dollar forward rate may depreciate due to mounting expectations for rapid interest rate hikes by the FRB.

Hong Kong dollar interest rate market in December

Even though the Hong Kong dollar interest rates are expected to follow the appreciation of the U.S. dollar interest rates, the appreciation is likely to be a moderate one. As the HKMA slowed down the issuance of foreign exchange fund securities, a smaller amount of capital would be absorbed in the market. As a result, the Hong Kong dollar short-term interest rates are likely to remain low and stable. The appreciation of the Hong Kong dollar swap interest rate is expected to remain slow for a while until the appreciation of the inflation pressure becomes more evident. While the Chinese yuan continues to depreciate, capital inflow from Mainland China is likely to continue, and is expected to control the upward pressure on the overall interest rates in Hong Kong.

Chihiro Agekido, Treasury Division, MHBK (China)

Chinese Yuan – December 2016

Expected Ranges	Against the US$:	CNY 6.8000–7.0500
	Against the yen:	JPY 15.32–17.06
	Against 100 yen:	CNY 5.8600–6.4600

1. Review of the Previous Month

Foreign exchange market

The Chinese yuan depreciated sharply against the U.S. dollar in November, as a result of the appreciation of the U.S. dollar after the presidential election. As it did in the previous month, the Chinese yuan thus renewed its lowest rate since the beginning of the year.

The U.S. dollar/Chinese yuan trading exchange rate opened trading in November at the mid-CNY 6.76 level. Before the presidential election scheduled for November 8, the U.S. dollar was to appreciate when Hillary Clinton was more likely to win, while the U.S. dollar was to depreciate if Donald Trump was more likely to win. Thus, at the beginning of the month, the U.S. dollar depreciated due to the fact that the controversy concerning Hillary Clinton's use of personal e-mails surfaced again. Following this trend, the Chinese yuan also appreciated against the U.S. dollar. However, the FBI thereafter announced its view that there were no further problems regarding her use of e-mail, which led market participants to expect a victory for Hillary Clinton. As a result, the Chinese yuan depreciated against the U.S. dollar and the U.S. dollar/Chinese yuan exchange rate reached the lower-CNY 6.78 level.

On November 9, as vote counting advanced, a victory by Donald Trump in the U.S. presidential election became decisive. As had been previously expected, this fueled risk-averse sentiment in the market, and the U.S. dollar and stock prices depreciated. However, market participants felt positive about the fact that the division in Congress was resolved, while expectations grew for new measures to be taken by Donald Trump. As a result, the U.S. dollar appreciated thereafter. Also, the People's Bank of China (PBOC) central parity rate was set toward a weaker yuan against the U.S. dollar for consecutive days, and the Chinese yuan depreciated every day in the actual trading market as well. Even though there were some activities that seemed to be market interventions by the Chinese monetary authorities, with large-scale U.S. dollar-selling and Chinese yuan-buying, the trend in the market did not change. As a result, the U.S. dollar/Chinese yuan exchange rate rapidly exceeded the CNY 6.8–6.83 level, which used to be a psychological turning point, after the financial crisis in 2008.

On November 23, the U.S. economic indices were released with figures significantly stronger than expected in the market. In reaction to this, expectations grew for the expansion of the U.S. economy as well as an interest rate hike before the end of the year. The U.S. dollar thus appreciated further. On November 24, the following day, the PBOC central parity rate was set at the CNY 6.9 level for the first time since June 2008. In the actual trading market, the Chinese yuan depreciated against the U.S. dollar to the CNY 6.92 level. The U.S. dollar/Chinese yuan exchange rate remained high above the CNY 6.9 level thereafter as the Chinese yuan remained weak.

Interest rate market

In November, there were moments in which funds were absorbed in the market in net terms for consecutive days as well as moments in which the liquidity level lowered due to growing need for capital procurement for the purpose of tax payment, as well as factors related to the end of the month. As a result, the SHIBOR level appreciated to a certain extent as well.

In the first half of the month, funds were absorbed in the market in net terms, reducing needs for major Chinese banks to release funds into the market, slightly lowering the liquidity level. In the middle of the month, funds were provided in the market in net terms. However, the liquidity level remained low, as there was high capital demand for the purpose of tax payment. Therefore, the overall level of the SHIBOR curve appreciated moderately. On November 16, a medium-term lending facility (MLF) reached its maturity, and even large Chinese banks sought to procure funds. In the afternoon of November 16, another MLF was provided for an amount larger than the matured MLF, which raised the liquidity level in the market for the moment. However, toward the end of the month, the liquidity level lowered again thereafter, raising interest rates slightly as well.

2. Outlook for This Month:

Foreign exchange market

The U.S. dollar is expected to continue appreciating in December, due to mounting expectation for economic measures to be taken by Donald Trump (such as tax cuts, investment in infrastructure, and deregulation), as well as the appreciation of U.S. dollar interest rates. As a result, the Chinese yuan is likely to continue depreciating against the U.S. dollar during this month.

For the current moment, the market has already reflected the expected interest rate hike at the FOMC meeting scheduled for December 13 and 14. The interest rate hike would lead the U.S. dollar to temporarily appreciate. However, this is unlikely to be a factor to keep the U.S. dollar high for a longer term. Therefore, policy measures taken by Donald Trump are likely to remain a key factor in the market. Before the end of the year, there is no significant factor to change the trend of the appreciation of the U.S. dollar. The U.S. dollar is therefore expected to continue appreciating and following such a trend, and the Chinese yuan is expected to continue depreciating against the U.S. dollar.

Key forthcoming events in China include the Central Economic Work Conference scheduled for December. This is the most important annual conference in terms of economic matters jointly held by the Communist Party of the People's Republic of China and the Chinese government, in order to agree on economic policy for the next year. At this conference, target figures for economic management such as the growth rate will be discussed, and the agreed-upon figure will be announced at the National People's Congress to be held in March next year. Therefore, the outcome of the conference is unlikely to influence the exchange market in December, but some related media reports may cause fluctuations in the Chinese yuan exchange market.

Officials at the Chinese monetary authorities made remarks to suggest that the Chinese yuan has been more stable than other currencies, while the U.S. dollar continues to appreciate globally. Even though the Chinese yuan exchange market tends to follow trends in the market of other currencies such as the U.S. dollar, it seems that the Chinese monetary authorities want the Chinese yuan exchange market to remain stable.

Interest rate market

The SHIBOR level that rose toward the end of the month is expected to get lower once at the beginning of December. However, some major Chinese banks have already started procuring funds for the end of the year, as well as for the Chinese New Year. Therefore, capital demand is forecast to grow toward the end of the year, which will lead the liquidity level to decrease, raising the overall level of the SHIBOR curve in the times ahead.

Noriko Suzuki, Asia & Oceania Treasury Department

Singapore Dollar – December 2016

Expected Ranges	**Against the US$:**	**SG$ 1.4050–1.4400**
	Against the yen:	**JPY 77.50–80.00**

1. Review of the Previous Month

The Singapore dollar fell to its lowest rate in 10 months in November, as funds continued flowing out of emerging countries in an accelerated manner as a result of the unexpected outcome of the U.S. presidential election.

The U.S. dollar/Singapore dollar exchange market opened at the lower-SGD 1.39 level in November. Thereafter, the October manufacturing PMI of China turned out to be at its highest point in two years. In positive reaction to this, the Singapore dollar strengthened thereafter. On November 2, the following day, the FOMC decided to maintain the policy interest rate at the existing level, as had been expected in the market, and impact on the exchange market was minimal. Toward November 4, the approval rate for Donald Trump approached that of Hillary Clinton, while the controversy over Hillary Clinton's use of personal e-mail surfaced again, As a result, market participants started to sell the U.S. dollar, buying the Singapore dollar. As a result, the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.38 level. On the same day, the October employment statistics of the U.S. were released, and the figures fueled expectations for an interest rate hike in December. However, impact on the exchange market was limited, while market participants were waiting for the outcome of the U.S. presidential election.

In the following week, the FBI announced on November 7 that it would no longer investigate the issue of Hilary Clinton's use of personal e-mail. As a result, the market already reflected a victory by Hillary Clinton in the presidential election, leading the U.S. dollar to appreciate. Following this trend, the U.S. dollar/Singapore dollar exchange rate also returned to the lower-SGD 1.39 level. However, on November 9 during Asian hours, the media started to report the result of vote counting, revealing the predominance of Donald Trump in many of the major battleground states. Thus, unlike the prior estimate, a victory by Donald Trump became a possibility. In reaction to this unexpected situation, the U.S. dollar depreciated sharply against other major currencies. Following the trends of those major currencies, the Singapore dollar also strengthened, and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.38 level. After a while, a victory by Donald Trump was finally confirmed. However, after the moment of U.S. dollar-selling, the trend was reversed and the U.S. dollar started to appreciate, along with stock prices and the U.S. dollar interest rates, due to expectations for the major fiscal measures announced by Donald Trump. As a result, overall Asian currencies weakened, and following this trend, the Singapore dollar also depreciated sharply on consecutive days to reach SGD 1.40 to the U.S. dollar on November 9 and to SGD 1.41 to the U.S. dollar on November 10. Thereafter, pressure to sell the Singapore dollar remained high, and the Singapore dollar continued depreciating for two weeks, while there were several days in which the exchange rate fluctuated in both directions. As a result, the U.S. dollar/Singapore dollar exchange market moved significantly, reaching the upper-SGD 1.43 level on November 24—the lowest rate for the Singapore dollar in 10 months.

After the Thanksgiving holiday on November 24, many speculators started to close out their positions. As a result, the appreciation of the U.S. dollar slowed for a while. Following this trend, the Singapore dollar rallied toward the end of the month, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.42 level.

2. Outlook for This Month

The depreciation of the Singapore dollar against the U.S. dollar after the U.S. presidential election is likely to slow in December. The U.S. dollar/Singapore dollar exchange rate is therefore expected to remain within a narrow range, while the Singapore dollar is likely to remain low. However, as the market has just seen violent fluctuations, there may be more fluctuations during this month.

In general, the market tends to be stable with small fluctuations in December toward the Christmas holidays, after the release of the employment statistics of the U.S. scheduled in the first week. However, as there were unexpected violent fluctuations in November this year after the U.S. presidential election, it is possible for the market to see some more fluctuations in December. In the so-called "Trump market," investment in infrastructure following fiscal expansion is expected to lead to economic recovery and growing inflation expectations, accelerating interest rate hikes. With such expectations, market participants continued buying the U.S. dollar. However, the policy measures under the new Trump administration will not be announced officially until the State of the Union address scheduled for January next year. The economic outlook will thus remain uncertain until then. As the U.S. dollar has been appreciating only with growing expectations, if market participants start to close out their positions before the Christmas holidays, it is possible for the U.S. dollar to depreciate sharply. However, there is still some time before it is possible to know whether reality will live up to expectation or whether market participants will be disappointed. Thus, the current mood is likely to remain in the market until the beginning of the next year. Therefore, when the U.S. dollar depreciates to a certain level, there are some market participants that will buy the U.S. dollar. As a result, the U.S. dollar/Singapore dollar exchange rate is expected to remain within a narrow range between SGD 1.40 and SGD 1.44, with the Singapore dollar remaining low.

It should also be mentioned that market participants are almost certain that the policy interest rate will be raised by 25 basis points at the FOMC meeting scheduled for the middle of December. The most important question now is how rapidly the interest rate will be raised in the times ahead. Market participants will therefore be paying attention to the expressions used in the FOMC statement as well as to any hints related to the pace of future interest rate hikes.

Hiroyuki Yamazaki, Bangkok Treasury Office

Thai Baht – December 2016

Expected Ranges	**Against the US$:**	**BT 34.90–36.50**
	Against the yen:	**JPY 2.99–3.38**

1. Review of the Previous Month

As a result of the victory by Donald Trump in the U.S. presidential election, the U.S. dollar appreciated against the Thai baht, while the Thai baht appreciated against other currencies.

In November, the U.S. dollar/Thai baht exchange market opened at around THB 35.00. The exchange market did not move significantly thereafter before the U.S. presidential election scheduled for November 8. However, the media reported that the FBI would investigate the case of the Hillary Clinton's use of personal e-mail, which lead the approval rate of Donald Trump in public opinion surveys to rapidly approach that of Hillary Clinton. In reaction to this, the sense of uncertainty related to the U.S. presidential election grew in the market, strengthening the pressure to sell the U.S. dollar. As a result, the U.S. dollar/Thai baht exchange rate fell to approach THB 34.90. Thereafter, the U.S. dollar/Thai baht exchange rate remained stable at around THB 34.95, as the approval rate for Hillary Clinton was higher than that for Donald Trump, albeit by a small margin. After a positive media report concerning the above controversy over the use of personal e-mail by Hillary Clinton, the U.S. dollar appreciated against the Japanese yen. Following this trend, the U.S. dollar/Thai baht exchange rate appreciated once from the upper-THB 34.90 level to the mid-THB 35.00 level.

In the middle of November, risk-averse sentiment grew in the market after the victory by Donald Trump in the U.S. presidential election, which was not previously expected. As a result, the U.S. dollar/Thai baht exchange rate fell to once approach THB 34.80. However, thanks to the victory speech by Donald Trump and the fact that the Republicans won a majority both in the upper house and the lower house of Congress, risk-taking sentiment grew in the market, and stock prices and the U.S. dollar appreciated, while bond prices depreciated (yield rates appreciated). In reaction to this, the U.S. dollar/Japanese yen exchange rate started to appreciate. Following this trend, the U.S. dollar/Thai baht exchange rate rallied rapidly to approach THB 35.00. The same trend remained in the market thereafter, and as time passed by, market participants became increasingly positive about the policy measures suggested by Donald Trump. As a result, the market trend also changed significantly, and the U.S. dollar/Thai baht exchange rate continued appreciating intermittently. On November 10, the exchange rate rapidly approached THB 35.30 to the U.S. dollar. The momentum did not weaken after the weekend, and the U.S. dollar/Thai baht exchange rate continued slowly appreciating to reach the mid-THB 35.50 level. As market participants expected the U.S. to take a protectionist approach at that level, the stock market weakened with concerns over a decline in exports. This led the U.S. dollar/Thai baht exchange rate to continue hovering at around THB 35.30–THB 40 thereafter. On November 17, FRB Chair Janet Yellen gave a congressional testimony, which led the U.S. dollar/Thai baht exchange rate to rally to the mid-THB 35.40 level. Market participants continued buying the U.S. dollar on November 18, and the U.S. dollar/Thai baht exchange rate rose to temporarily reach the THB 35.60 level. Thereafter, the U.S. dollar/Thai baht exchange rate hovered at around the lower-THB 35.50 level.

Toward the end of November, the July–September quarter GDP of Thailand was announced on November 21, and the result turned out to be +3.2% year-on-year, lower than the market estimate (+3.4%). However, the reaction in the market was limited. Thereafter, the U.S. dollar/Thai baht exchange rate fluctuated violently in both directions at around the THB 35.50 level. However, on November 23, the October figure for durable goods orders in the U.S. was announced, which turned out to be +4.8%—significantly stronger than the market estimate (+1.7%). Furthermore, the November University of Michigan Consumer Sentiment Index for the U.S. turned out to be stronger than expected. As a result, U.S. dollar interest rates appreciated sharply, encouraging market participants to buy the U.S. dollar. Consequently, the U.S. dollar/Thai baht exchange rate rose sharply to the THB 35.70 level. On the following day, market participants adjusted positions before a national holiday in the U.S., which weakened the market, and the U.S. dollar/Thai baht exchange rate to fall to the mid-THB 35.50 level. On November 29, the revised figure for the July–September quarter GDP of the U.S. was released, and the result was strong, which led the U.S. dollar/Thai baht exchange rate to rise again to approach THB 35.70. At the end of the month, however, the U.S. dollar/Thai baht exchange rate returned to the mid-THB 35.60 level.

2. Outlook for This Month:

The Thai baht is expected to appreciate from the middle to the end of December.

The market is still affected by the victory of Donald Trump in the U.S. presidential election. Even though some market participants sold the U.S. dollar to adjust positions toward the end of November, the U.S. dollar/Thai baht exchange rate did not move significantly. Therefore, the U.S. dollar/Thai baht exchange market is expected to remain unchanged for a while. There have been concerns that the Thai economy may be affected by the death of the Thai king. Also, a series of economic indices were released with worse-than-expected figures, such as the October automobile sales in Thailand, which turned out to be 60,634 (while the previous month's result was 63,631), and the October trade balance of Thailand (based on customs clearance), which turned out to be USD 248 million (while the previous month's result was USD 2.546 billion). Thus, market participants need to remain careful about the economic indices that are to be released in the times ahead. On the other hand, it should also be pointed out that the depreciation of the Thai baht is a positive factor in terms of the Thai economy and the environment for exports, in particular. Therefore, such figures may become stronger in the times ahead. Given that the preparation for the royal succession to the current Thai Crown Prince seems to be advancing rapidly, it can be said that the Thai government is willing to accept the depreciation of the Thai baht in order to achieve recovery from the economic decline caused by the death of the king. It should also be mentioned that there have been various tax cut measures in December, such as that to allow the inclusion of domestic travel costs in Thailand in expenses. On the other hand, with regard to the environment surrounding the U.S. dollar, the market seems to have already reflected the interest rate hike at the FOMC meeting scheduled for December 14. Until then, the market is likely to remain with the impact of the victory by Donald Trump. However, after this important event, there will no longer be significant impact from the result of the presidential election in the market. Therefore, market participants are expected to once sell the U.S. dollar to adjust positions. The U.S. dollar/Thai baht exchange rate is therefore forecast to decline from the middle to the end of December.

Takashi Miyachi, Asia & Oceania Treasury Department

Malaysian Ringgit – December 2016

Expected Ranges	**Against the US$:**	**MYR 4.40–4.60**
	Against the yen:	**JPY 24.00–26.00**

1. Review of the Previous Month

The U.S. dollar/Malaysian ringgit exchange market opened trading at the mid-MYR 4.19 level in November. On November 1, the October manufacturing industry PMI of China was released, and the figure turned out to be relatively strong. As a result, the Malaysian ringgit appreciated against the U.S. dollar to the upper-MYR 4.17 level. However, the crude oil price depreciated thereafter, which led the Malaysian ringgit to start depreciating against the U.S. dollar again, and the U.S. dollar/Malaysian ringgit exchange rate fell to the lower-MYR 4.20 level. Thereafter, market participants sold the U.S. dollar due to the cautious sentiment in the market before the U.S. presidential election. Following this trend, the Malaysian ringgit rallied against the U.S. dollar to the mid-MYR 4.17 level. However, the September trade balance of Malaysia was released on November 4, and its result turned out to be weaker than expected, which weakened the Malaysian ringgit against the U.S. dollar to the upper-MYR 4.19 level.

On November 7, an FBI official made a remark such that the FBI would maintain its initial decision not to investigate the issue of the use of personal e-mail by Hillary Clinton. This encouraged market participants to buy back the U.S. dollar, and the U.S. dollar/Malaysian ringgit exchange rate depreciated to the mid-MYR 4.21 level. Thereafter, the Malaysian ringgit rallied significantly against the U.S. dollar to the upper-MYR 4.17 level on November 9, after the media reported that Hillary Clinton was more likely to win the U.S. presidential election. However, in the end, a victory by Donald Trump was confirmed, which fueled risk-averse sentiment in the market. Following this trend, the Malaysian ringgit depreciated sharply against the U.S. dollar to the lower-MYR 4.24 level. Subsequently, funds flew out of emerging countries as long-term interest rates rose sharply in the U.S. As a result, a substantial amount of capital flew out of the Malaysian government bond market, and the Malaysian ringgit continued depreciating against the U.S. dollar to the upper-MYR 4.28 level. It should also be mentioned that the July–September quarter GDP of Malaysia was announced on November 11 and the result turned out to be stronger than expected. However, it was not a factor strong enough to stop the Malaysian ringgit from depreciating further from the U.S. dollar.

In the middle of the month, market participants continued buying the U.S. dollar because of the appreciation of the U.S. long-term interest rates. The U.S. dollar/Malaysian ringgit exchange rate continued falling to the lower-MYR 4.33 level, as there was capital outflow from the domestic bond market and the stock market in Malaysia. On November 16, there was a media report that the central bank of Malaysia (BNM) issued a warning regarding the depreciation of the Malaysian ringgit in the offshore NDF market. However, the Malaysian ringgit depreciated also in the NDF market. Toward the end of the week, the depreciation continued in the Malaysian ringgit exchange market, bond market, and stock market. As a result, the U.S. dollar/Malaysian ringgit exchange rate reached the mid-MYR 4.41 level.

On November 21, the U.S. dollar appreciated as a result of the appreciation of U.S. interest rates. Following this trend, the Malaysian ringgit depreciated against the U.S. dollar to the lower-MYR 4.43 level. However, BNM Governor Datuk Muhammad bin Ibrahim made it clear that the central bank carried out intermittent market interventions by buying the Malaysian ringgit, which led the Malaysian ringgit to rally to a certain extent, and the U.S. dollar/Malaysian ringgit exchange rate reached the upper-MYR 4.41 level. Toward the middle of the week, the Malaysian ringgit continued depreciating against the U.S. dollar to the mid-MYR 4.44 level, as overseas investors sold assets in Malaysian ringgit while the crude oil market weakened. On November 23, the BNM held a monetary policy committee meeting and announced its decision to maintain the policy interest rate at the existing level, which had only minor impact on the exchange market. Thereafter, capital continued flowing out of Malaysia and the depreciation of the Malaysian ringgit accelerated to reach the lower-MYR 4.46 level. During the last week of the month, there was no significant movement in the exchange market. In the end, trading closed at the upper-MYR 4.46 level.

2. Outlook for This Month

In the current foreign exchange market, the U.S. dollar has been appreciating along with U.S. interest rates, thanks to the expectation for fiscal expansion based on policy measures to be taken by U.S. President-elect Donald Trump. In particular, capital outflow from emerging countries has been significant, and as a consequence, Malaysia also witnessed a decline in its foreign exchange market, bond market, and stock market. Market participants are expected to continue selling the Malaysian ringgit in the times ahead, as in Malaysia, the long-term bond holding ratio of overseas investors is higher while interest rates are lower than in other emerging countries.

At the latest BNM monetary policy committee meeting, the policy interest rate (OPR) was maintained at the existing level of 3.00%. However, market participants still speculate further interest rate cuts as part of monetary policy at the BNM. Given that market participants are looking more at interest rate differentials from a short-term perspective, expectations for further interest rate cuts would strengthen the downward pressure on the Malaysian ringgit exchange market.

Furthermore, the July–September quarter GDP was announced in the previous month, and the result turned out to be +4.3% year-on-year, exceeding the expected level. However, the latest trade balance and industrial production figures do not show real recovery. It can thus be said that the fundamentals of Malaysia are not strong enough to support the Malaysian ringgit exchange market.

On the other hand, the U.S. long-term interest rates and the U.S. dollar have so far been appreciating as a result of speculation or prior expectation. Therefore, if expectation for future policy measures weakens, or if the U.S. strengthens its protectionist approach in the times ahead, the U.S. dollar may start depreciating. In addition, the appreciation so far has been very rapid, and it is likely for the strength of the U.S. dollar to be adjusted in the times ahead, which is important to note.

Based on the above factors, the Malaysian ringgit is forecast to weaken against the U.S. dollar in December. From a short-term perspective, the target U.S. dollar/Malaysian ringgit exchange rate would be MYR 4.50. If the exchange rate exceeds this level, the support line for the Malaysian ringgit would be MYR 4.70 to the U.S. dollar for the foreseeable future.

Ryosuke Kawai, Asia & Oceania Treasury Department

Indonesian Rupiah – December 2016

Expected Ranges	**Against the US$:**	**IDR 13,100–13,700**
	Against 100 rupiah:	**JPY 0.77–0.84**
	Against the yen:	**IDR 118.00–125.68**

1. Review of the Previous Month

The U.S. dollar appreciated against the Indonesian rupiah to the highest level in approximately five months, thanks to expectations for assertive fiscal measures and rapid interest rate hikes in the U.S. as a result of the victory by Donald Trump in the U.S. presidential election.

During the first half of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at around IDR 13,030. Before the U.S. presidential election, the U.S. dollar/Indonesian rupiah exchange rate remained within a narrow range between IDR 13,000 and IDR 13,100 thereafter. On November 7, the July–September quarter GDP was announced, and the result turned out to be +5.02% year-on-year, which was lower than expected (+5.08%). However, the impact on the exchange market was limited.

In the U.S. presidential election, which attracted substantial attention in the market, the media reported the victory of Donald Trump. Immediately after this, the U.S. dollar/Malaysian ringgit exchange rate momentarily rose to approach IDR 13,200, although reaction in the onshore market was limited. The situation changed in the morning of November 11, as the market sentiment deteriorated regarding the assets of emerging countries, as market participants foresaw that U.S. President-elect Donald Trump would take a protectionist approach. In the offshore NDF market, the U.S. dollar/Indonesian rupiah exchange rate recorded the most significant decline since 2011, to approach IDR 13,600. Following this trend, in the onshore market on November 11, the U.S. dollar/Indonesian rupiah exchange rate appreciated sharply (the Indonesian rupiah depreciated sharply) to the same level from market opening. However, the trend changed because of the market intervention by the central bank of Indonesia (BI), and the U.S. dollar/Indonesian rupiah exchange rate approached IDR 13,300 thereafter.

Then, the U.S. dollar continued strengthening in the overall foreign exchange market, thanks to the expectations for assertive fiscal measures and rapid interest rate hikes in the U.S. under U.S. President-elect Donald Trump. Under such conditions, market participants have been selling the Indonesian rupiah. However, there have been some supporting factors for the Malaysian ringgit, such as the July–September quarter current account balance announced on November 11 with a smaller deficit as well as the October trade balance announced on November 15 with a secured trade surplus. Furthermore, the BI has been carrying out market intervention intermittently. Therefore, the appreciation of the U.S. dollar/Indonesian rupiah has been a moderate one. As of November 24, the U.S. dollar/Indonesian rupiah pair has been trading at around IDR 13,500.

Even though the BI was implying possibility for further monetary easing before the U.S. presidential election, the interest rate (BI seven-day reverse repo rate) was maintained at the existing level (4.75%) at the regular meeting held at the BI on November 17 because of the market trends discussed above.

2. Outlook for This Month:

The Indonesian rupiah is expected to weaken against the U.S. dollar in December.

As a result of the victory by Donald Trump in the U.S. presidential election, market participants expected assertive fiscal measures as well as rapid interest rate hikes in the U.S. As a result, the Indonesian rupiah, Indonesian stocks, and Indonesian bonds all depreciated mainly in the offshore market.

Even though the market has currently been stable, the Indonesian rupiah exchange market is forecast to become volatile and bearish in the times ahead, unlike the stability observed until the previous month, given the future uncertainty in global politics and in the global economy.

Market participants expect that assertive fiscal measures in the U.S. will result in economic strength, which will result in interest rate hikes, finally resulting in the appreciation of the U.S. dollar. However, the protectionist trade policies suggested by Donald Trump have the opposite effect regarding the appreciation of the U.S. dollar. Therefore, the excessive appreciation of the U.S. dollar is likely to be adjusted in the times ahead. For this month, however, the current strength of the U.S. dollar is likely to remain in the market.

When it comes to domestic economic indices in Indonesia, the figures are not too weak, although they are far from being strong. In addition, at the time of the rapid capital inflow seen at the end of September, the BI steadily increased it foreign currency reserves (USD 115 billion, as of the end of October), which shows its capacity for managing the foreign exchange market.

For the above reasons, the downward pressure on the Indonesian rupiah is likely to strengthen in December, although it is unlikely for the Indonesian rupiah to rapidly depreciate.

Yoichi Hinoue, Manila Branch

Philippine Peso – December 2016

Expected Ranges	**Against the US$:**	**PHP 49.40–51.80**
	Against the yen:	**JPY 2.17–2.28**

1. Review of the Previous Month

The U.S. dollar/Philippine peso exchange market (onshore interbank market) opened trading in November at PHP 48.38.

Needless to say, local market participants were all carefully observing the U.S. presidential election.

Even though there were few market activities at the beginning of the month, waiting for said important event, market participants bought the U.S. dollar against other major currencies after a media report on the FBI's decision to postpone investigating the issue regarding the use of personal e-mail by Hillary Clinton, a main candidate in the U.S. presidential election. Following this trend, the U.S. dollar strengthened also against the Indonesian rupiah, reaching the PHP 48.60 level before vote counting in the U.S. presidential election.

The media started to announce the results of the vote counting in each state from the morning of November 9, Asian time. As the media reported the dominance of Donald Trump, risk-averse sentiment strengthened in the market. As a result, stock prices, interest rates, and Asian currencies (although the Chinese yuan appreciated following the depreciation of the U.S. dollar) depreciated, while the Japanese yen appreciated. Following this trend, the Philippine peso depreciated against the U.S. dollar, and the exchange rate once reached PHP 48.85 to the U.S. dollar.

Once the victory of Donald Trump became definitive, there was no market crash, as had been expected. The market remained calm, and the risk-averse sentiment that strengthened during vote counting was replaced by risk-taking sentiment. As a result, the U.S. dollar/Philippine peso exchange rate reached PHP 48.59, the same level as the closing rate of the day before the election.

After the election, market participants bought the U.S. dollar based on the trends created by the victory of Donald Trump.

On Friday November 11, the U.S. dollar/Philippine peso exchange market closed at PHP 48.95. At this level, market participants expected some activities by the Philippine monetary authorities, which would prefer to control any excessive depreciation of the Philippine peso. However, the U.S. dollar/Philippine peso exchange rate easily reached the PHP 49 level at market opening on November 14, after the weekend.

On November 17, FRB Chair Janet Yellen made a remark to emphasize that it would be appropriate to raise the interest rate in the near future. In reaction to this, market participants expected an interest rate hike at the Federal Open Market Committee meeting in December, so as to be certain. As a result, the U.S. dollar/Philippine peso exchange rate continued renewing its high every day.

On November 24, the U.S. dollar/Philippine peso exchange rate momentarily touched PHP 50—the lowest rate for the Philippine peso in 10 years.

There was a case of U.S. dollar-selling, which was seen as market intervention by the Philippine monetary authorities. However, there were also Philippine peso buybacks by investors who wished to reduce their U.S. dollar positions before the release of the December employment statistics in the U.S. Between these two trends, the U.S. dollar/Philippine peso exchange rate returned to the PHP 49.70 level, and trading closed at that level.

2. Outlook for This Month

The September OFW remittances increased by 6.7% year-on-year and by USD 64 million from the previous month, to reach USD 2.383 billion. This result is stronger than the market estimate, which is good news in terms of domestic consumption through commercial competition before the Christmas holidays.

It should also be mentioned that the third quarter GDP of the Philippines turned out to be 7.1% (year-on-year), which was above the market estimate. The economic fundamentals of the Philippines have thus been strong. Even though this factor has little impact while the market is affected by the victory of Donald Trump, it is a positive factor for the Philippine peso exchange market.

After the U.S. presidential election, market participants have been selling Asian currencies due to concerns over capital outflow from Asia. According to the IMF, the Philippines is the most resistant country in Asia in terms of capital outflow (based on the balance between foreign currency reserves and external deficits). The foreign currency reserves of the Philippines are 12 times as large as the monthly import value. Stable funding in foreign currencies through OFWs is also supporting the strength of the Philippines.

Factors to buy the Philippine peso have thus been listed. However, in the end, the most important question is for how long the impact of the victory of Donald Trump will persist in the market.

The central bank of the Philippines has made the comment that "There would be no concern unless speculative activities are present." (Although, this may not have been the true opinion—but it was the official statement.) It therefore seems that the central bank is ready to accept the depreciation of the Philippine peso to some extent as long as inflation is well managed. (This attitude may change once OPEC members agree on a production cut for crude oil and if the crude oil price starts to appreciate.)

However, it should be pointed out that risk-averse sentiment is likely to strengthen in the market after the impact of the victory by Donald Trump starts to weaken. Therefore, the Philippine peso is likely to remain weak in either case.

Junya Tagawa, Asia & Oceania Treasury Department

India Rupee– December 2016

Expected Ranges	**Against the US$:**	**INR 67.50–70.00**
	Against the yen:	**JPY 1.60–1.70**

1. Review of the Previous Month

The Indian rupee depreciated significantly against the U.S. dollar in November.

The U.S. dollar/Indian rupee exchange market opened trading at the INR 66.70 level in November. At the beginning of the month, the U.S. dollar/Indian rupee exchange rate remained within a narrow range at around INR 66.70 with few factors in the market. However, during the evening of November 8, local time, the government announced its decision to stop the distribution of large-denomination bills. Also, market participants reacted positively to the attitude of the government to prevent tax evasion and corruption. As a result, the U.S. dollar/Indian rupee exchange rate depreciated and the Indian rupee reached its monthly high at the INR 66.33 level.

However, as was the case in other countries as well, the Indian rupee exchange market could not avoid the impact of the victory by Donald Trump. The Indian rupee started to depreciate against the U.S. dollar thereafter. After vote counting, the U.S. dollar was strong against overall emerging currencies. Following this trend, market participants sold the Indian rupee against the U.S. dollar. As a result, the U.S. dollar/Indian rupee exchange rate renewed its highest level since the beginning of the year, approaching INR 65.86 for the first time since September 2013.

Toward the end of the month, the market calmed down to some extent, and the depreciation of the Indian rupee slowed down for the moment. As of November 28, the U.S. dollar/Indian rupee pair has been trading at the INR 68.70 level.

It is also worth noting that the Indian rupee/Japanese yen exchange market opened trading in November at the JPY 1.57 level. During the vote counting of the U.S. presidential election, the India rupee/Japanese yen exchange rate temporarily reached the JPY 1.51 level—the lowest level observed. However, after the victory speech by Donald Trump, the Japanese yen depreciated significantly. Following this trend, the Indian rupee/Japanese yen exchange rate daily renewed its high. Toward the end of the month, the U.S. dollar/Japanese yen exchange rate rose to approach JPY 114. Even though both the Indian rupee and the Japanese yen depreciated against the U.S. dollar, the depreciation of the Japanese yen was much more rapid. Therefore, in the Indian rupee/Japanese yen market, the Indian rupee appreciated against the Japanese yen. The, the Indian rupee/Japanese yen exchange rate renewed its high at around JPY 1.66. As of November 28, the Indian rupee/Japanese yen pair has been trading at the JPY 1.63 level.

2. Outlook for This Month

The Indian rupee is expected to weaken in December.

Market participants have been interested in tax cuts and large-scale public investment, which are the key policy measures under U.S. President-elect Donald Trump. With expectations for these measures, the expected inflation rate in the U.S. appreciated, leading to the appreciation of interest rates, stock prices, and the U.S. dollar, strengthening assets in U.S. dollars. Even though the division in the U.S. Congress was resolved, not everyone in the Republican Party entirely agrees with the policy measures suggested by Donald Trump. It should also be pointed out that Donald Trump has not yet clarified budget sources. There are thus questions regarding the feasibility of these measures. However, as long as we can tell from the current market momentum, this trend is likely to persist for a while. Market participants are therefore expected to continue buying the U.S. dollar in the foreign exchange market.

When it comes to domestic economic factors in India, personal consumption is expected to fall due to the decision to stop the distribution of large-denomination bills. While this will cause negative impact on the Indian GDP, there are also concerns regarding the short-term management of inflation. In addition, bank deposit balances have been increasing rapidly, as many people are making deposits using old banknotes. Banks are obliged to buy Indian government bonds in response to this. As a result, government bond yield rates have been falling sharply. Market participants are thus expecting the Reserve Bank of India (RBI) to cut the interest rate, which would be a factor for selling the Indian rupee.

Upcoming events related to central banks include the monetary policy meeting at the RBI scheduled for December 7 as well as the FOMC meeting in the U.S. scheduled for December 13 and 14. As was discussed above, the U.S. dollar/Indian rupee exchange rate is surely expected to appreciate based on differences in financial policy, if the RBI decides to cut the interest rate and if the FOMC decides to raise the interest rate, as is expected in the market.

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

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