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Mizuho Dealer's Eye

February 2017

Mizuho Bank, Ltd.

Forex Department

Michiyoshi Kato, Forex Sales, Forex Department

U.S. Dollar – February 2017

Expected Ranges Against the yen: JPY110.00–118.00

1. Review of the Previous Month

With Donald Trump's inauguration looming, the dollar/yen pair entered the New Year at the mid-117 yen mark. It failed to hit 119 yen, though, and it then dropped back to approach the month's end trading in a range between 113 yen and 115 yen on the whole.

The pair opened the year trading at the mid-117 yen mark in overseas markets. The December Manufacturing ISM Report on Business was then released on January 3. It topped expectations to hit its highest level in roughly two years. Market participants initially reacted by testing the pair's topside. At this point in time it seemed the dollar would move firmly in tandem with the previous year's trend. After hitting a high of 118.60 yen, though, the pair was pushed down to 117 yen by comments from Trump that Japanese carmakers would be hit by stiff tariffs unless they relocated production to within the U.S. From the end of 2016 dollar long positions had built up on the so-called Trump Rally, but this trend now came under some adjustment. The pair dropped close to breaking 115 yen in the run up to the release of the December U.S. employment data on January 6. In the end, the contents of the employment data were strong enough to support the forecast for three interest rate hikes in 2017. As a result, the currency pair was bought back sharply to 117 yen and it remained hard to discern a clear trend. In Europe, meanwhile, UK Prime Minister Theresa May roused fears of a hard exit from the EU (Hard Brexit). The pound/yen pair fell sharply and this also saw the dollar/yen pair moving with a heavy topside.

With the world watching, Donald Trump then delivered a populist, scattershot press conference. However, he did not mention fiscal expansion or tax cuts, both the subject of market speculation, so the dollar/yen pair plummeted amid position unwinding. It was sold off further to hit 113 yen on January 12. It was deadlocked for around a week thereafter, but it dropped further to hit the mid-112 yen mark in the third week as concerns about a Hard Brexit flared up again after a speech by Theresa May.

However, some Japanese investors saw the 110–113 yen range as a suitable zone for closing out hedges, so the pair saw a commensurate amount of dollar-buying demand when it dipped just below 113 yen. In general, headlines related to Europe (and the UK in particular) led to risk aversion and yen buying in the cross yen market. At the same time, FRB-related news led to dollar buying on expectations for rate hikes. Many market participants were also pushed to buy and sell by outrageous comments by President Trump on Twitter.

2. Outlook for This Month:

If position adjustments ease off after the Lunar New Year, the dollar will probably move firmly again.

It seems that a number of market participants have yet to digest the implications of President Trump's policies. These policies are the subject of constant, lingering concerns and it still seems that uncertainty will be the main theme for 2017. At this point, it is probably too early to draw any firm conclusions about Trump's policies.

At the same time, though, it must be clear to everyone that the U.S. economy is essentially approaching full employment. At this moment in time, there do not seem to be any clear factors capable of dampening forecasts for U.S. rate hikes. Most market participants continue to expect rates to be hiked three times this year. It is common knowledge that the dollar/yen pair reacts sensitively to U.S./Japanese interest-rate differentials. If we accept that Japan is unlikely to shift to a phase of rate hikes, then it is only natural to assume that Japanese/U.S. interest-rate differentials will widen. As such, the main scenario is one of dollar bullishness. Of course, a number of voices called for the dollar's rise to be capped when the pair rose to the upper-120 yen mark two years ago, so investors should not place their bets on the pair easily rising to 125 yen or 130 yen. Rather than having its room on the topside tested, it is more likely that that pair's support line will climb higher as its downside is pushed up.

Of course, we cannot completely rule out the possibility of the U.S. making some threats about currencies and exchange rates during bilateral negotiations with Japan. With President Trump, this scenario seems all the more likely. If this happens, there is a risk the dollar/yen pair could plummet, but this would probably force Japan to take some defensive measures, so it is hard to imagine the yen skyrocketing and the pair dropping below 100 yen, even in this scenario. It seems unlikely that the trade balance will be corrected by the exchange rate, like it was in the 1980s. If the U.S. wants to leave open the possibility of domestic fiscal mobilization while also taking on China, it will probably not be a wise policy to try pushing the dollar/yen pair lower.

There are probably a large number of market participants (particularly exporters waiting for hedge-selling opportunities) queuing up to sell the dollar when the pair moves at start-of-the-year highs around 118–120 yen. At the same time, there are Japanese investors who will try to close out their selling hedges at 110–113 yen and there are also real-demand investors waiting to buy at lows. However, it is a fact that in the past the dollar/yen pair has often seen some anomalous selling in February after having been sold in January. As such, if investors sell the pair in the short term on risk aversion rather than chasing its topside, this will represent a good buying opportunity.

Dealers' Market Forecast

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

Bullish on the dollar (2 bulls: 110.00–118.00, Core: 110.00–117.00)

Kato	110.00 – 118.00	The dollar/yen pair will see some adjustive selling, but this will probably a good opportunity to buy the dollar. It is impossible to make any predictions about President Trump's policies. With the U.S. approaching full employment, meanwhile, U.S./Japanese interest-rate differentials will widen. Unlike the 1980s, it is hard to imagine trade negotiations focusing solely on adjusting the trade balance through the exchange rate.
Sato	110.00 – 116.00	The dollar has been sold recently on the poor reaction to President Trump's protectionist policy. While on the campaign trail, though, Trump championed fiscal expansion in the form of tax cuts and infrastructure spending, for instance. Trump looks set to deliver his budget message to the U.S. Congress in February. If this contains some announcements about fiscal expansion, the dollar will probably bounce back.

Bearish on the dollar (10 bears: 107.00–116.00, Core: 108.50–116.00)

Fujisaki	107.00 – 115.00	The markets have finished factoring in further U.S. rate hikes. Though there are high hopes regarding the policies on the new Trump administration, the markets are also focusing on the dangers of protectionism, so it will be somewhat hard to buy the dollar from a psychological standpoint. With Japanese firms sets to repatriate funds or build up hedges in the run up to the settlement season, the yen will face appreciatory pressures.
Yamashita	107.00 – 115.00	U.S. government officials have intervened verbally to curb the dollar's rise, perhaps out of concerns about the negative impact on U.S. firms. President Trump has an unpredictable character and he could get carried away in his efforts to stimulate the economy, so there are doubts about whether the FOMC will implement further rate hikes. The dollar/yen pair will probably return to the trend of dollar bearishness.
Yano	108.00 – 115.00	Donald Trump is a president with no political experience, so there are doubts about the viability of the policies he has espoused. Market sentiments also seem more inclined in the direction of cautiousness, so the dollar/yen pair looks set to continue moving with a heavy topside. When it comes to the outlook for Japanese and U.S. monetary policy, though interest-rate differentials will continue to widen, the markets have already factored this in, so the impact on the currency pair will be muted.
Takada	110.00 – 116.00	The U.S. economy will move firmly on healthy employment conditions and robust consumption. Given the uncertainty about the direction of Trump's policies, though, U.S. long-term interest rates are unlikely to climb much, even when expectations grow for a rate hike. The dollar/yen pair is expected to move with a heavy topside.
Nishijima	109.00 – 116.00	As it pushes forward with its strong protectionist policies, the Trump administration's desire for a weak dollar will gradually place pressure on the dollar/yen pair. While expectations for positive factors (such as fiscal expansion, big tax cuts and infrastructure spending) are on the wane, the U.S. government is pointing the finger at Japan for its trade imbalance. As such, the pair's downward bias could gradually grow stronger, so caution is needed.
Shimoyama	108.00 – 116.00	Speculators are adjusting their dollar long positions on uncertainty about the Trump administration. The dollar/yen pair will also be impacted by real-demand flows as Japanese firms hedge their balance sheets or buy the yen to repatriate funds back home, so it will probably move with a heavy topside. The U.S. economy is moving firmly so the pair will not fall sharply. If anything, though, it is likely to trend lower with a heavy topside.
Nishitani	110.00 – 115.00	The dollar/yen pair's topside is growing steadily heavier on uncertainty about Trump's policies. With trade agreements also coming under pressure from Japan/U.S. trade frictions, the Japan/U.S. Heads of State meeting on February 10 will be extremely crucial. Expectations for an early FRB rate hike are smoldering away so the dollar/yen pair is unlikely to fall sharply, but it will probably continue moving with a heavy topside.
Moriya	108.00 – 116.00	The dollar had climbed solely on 'hopes' about President Trump's policies, but this phase is over. The dollar/yen pair will continue to be swayed by Trump's behavior, but concerns about protectionism are rising steadily. U.S. economic indicators are moving firmly at present, but protectionism will lead to dollar bearishness and investors will find it hard to actively buy the greenback.
Tsuruta	110.00 –	The markets are swinging betweem 'hopes' about the Trump administration's policies and excessive 'fears' about its protectionism. Under these circumstances, the dollar/yen pair will mainly move in range without a sense of

	116.00	direction.With uncertainity still lingering about Trump's economic policies, it is hard to image his State of the Union Message (pencilled in for the end of the month) leading to any active dollar buying, so the dollar/yen pair's topside will be capped.
Okuma	110.00 – 116.00	President Trump's excessive protectionist policies are facing increasing criticism within the U.S. Trump has yet to announce any specific plans for fiscal expansion. Under these circumstances, the dollar/yen pair's downside will probably edge lower on concerns about political turmoil and rising uncertainty about the future.

Takashi Nishitani, Forex Sales, Forex Department

Euro – February 2017

Expected Ranges **Against the US$: US$1.0300–1.0900**
Against the yen: JPY119.00–123.00

1. Review of the Previous Month

The euro/dollar pair rose in January.

In the first week, it opened trading at the mid-$1.04 mark on January 3. The euro was sold at a faster pace after the December U.S. Manufacturing ISM Report on Business beat market expectations, with the pair crashing temporarily to $1.0340 for the first time since January 2003 while activating stop losses. It recovered to the upper-$1.04 toward January 4. The dollar/RMB then pair fell sharply on January 5. This led to dollar selling, with the euro/dollar pair climbing to the mid-$1.05 level. With U.S. long-term interest rates sliding, the pair then rose to $1.06. However, the U.S. employment data for December was released on January 6 and the markets reacted warmly when the average hourly wages data significantly topped prior expectations. As a result, the greenback was bought and the currency pair fell to around $1.0530. At the weekend, UK Prime Minister Theresa May indicated her government would prioritize controlling immigration over access to the single market. This led to growing concerns about a so-called Hard Brexit in the second week. The euro climbed against the pound and the euro/dollar pair also strengthened to the upper-$1.05 mark. This trend continued on January 10 and the pair rose to the lower-$1.06 level. Dollar-buying intensified on January 11 on expectations in the run up to a press conference by Donald Trump. The currency pair temporarily dipped to the mid-$1.04 level, but these expectations then dropped off after Trump failed to mention any large-scale tax cuts or fiscal mobilization in the aforementioned press conference. The dollar was sold and the euro/dollar pair bounced back to $1.06.

In the third week the dollar was sold on falling U.S. interest rates, with the currency pair temporarily rising to the lower-$1.07 level on January 17. Thereafter, Theresa May gave a speech saying the UK would be pulling out of the single market, though concerns of a Hard Brexit dropped off when May announced she would give parliament a vote on the final Brexit deal. As a result, the pair moved firmly around $1.07. It then fell to the lower-$1.06 mark on January 18 as the dollar was bought in the wake of a speech by FRB Chair Janet Yellen. The ECB Governing Council met on January 19. Though it decided to leave policy unchanged, ECB President Mario Draghi subsequently made some dovish comments. With U.S. economic indicators also moving firmly around this time, euro-selling intensified and the euro/dollar pair tumbled to the upper-$1.05 level. President Trump did not discuss tax cuts or fiscal policies in his inaugural speech on January 20. The greenback was sold on a sense of disappointment, with the currency pair jumping back to around $1.07. In the fourth week, the dollar was sold and the pair rose to $1.0775 for a time after Treasury Secretary nominee Steven Mnuchin said "an excessively strong dollar may have negative short-term implications on the economy" on January 24. The pair fell to the upper-$1.06 level on January 26 on rising U.S. interest rates. However, the U.S. then released some worse-than-expected GDP data for October–December on January 27, with the currency pair subsequently rising to $1.07 for a time. The pair dipped to the lower-$1.06 level at the start of week five, but it then bounced back to trade around $1.07.

2. Outlook for This Month:

The euro/dollar pair looks set to trade with a heavy topside in February.

The pair climbed higher on a flurry of position adjustments last month after having fallen sharply at the end of 2016. However, there is a deep-rooted feeling among market participants that the euro will trend lower in the mid-term and there is likely to be considerable appetite for selling at its current level around $1.07, so on the whole the pair is expected to move with a heavy topside.

At the moment, though, the markets are mainly being driven by the words and deeds of President Trump. There is a lot of uncertainty and concern at present about the Mexican wall, a ban on immigration from certain countries, and suggestions that foreign exchange stipulations could be written into trade agreements. There is a positive side to these moves, with the NY Dow Jones topping the $20,000 mark on expectations that U.S. industry will receive a boost, for instance, but it seems the markets have recently focused more on the negative side, namely Trump's excessive protectionism. If risk sentiments deteriorate suddenly from here on, investors may unwind their euro short positions, so caution will be needed.

A glance at monetary policy reveals a clear difference in the paths of the FRB and ECB. The FRB is growing more confident about the direction of the U.S. economy in the wake of recent bullish U.S. economic indicators. On the other hand, the ECB continues to pursue an accommodative monetary policy. The ECB Governing Council will not be meeting this month. In his press conference after last month's meeting, though, ECB President Mario Draghi expressed the opinion that current inflation is only a temporary phenomenon driven by rising crude oil prices, with the ECB set to maintain its easing stance until core inflation looks set to rise. This divergence in monetary policy is the basic reason why speculators and so on have built up euro short positions. It is also the main factor holding down the euro/dollar pair's topside. At present, all eyes are focused on President Trump's economic policy (so-called Trumponomics), but if the markets focus once again on monetary policy, the euro will depreciate at a faster pace.

Political risk in the eurozone should not be overlooked either. Trump has indicated he is glad to see the UK leaving the EU, with talks now underway with regards to a new trade agreement between the UK and U.S. This contrasts with former president Obama's comments that the UK would be at the 'back of the queue' when it came to trade negotiations. With protectionism rising across the globe, if anti-EU sentiments also increase in France, Germany or other core EU nations, this will put downward pressure on the euro. A number of political events are lined up. March will see the formal notification of the UK's intention to leave the EU, for instance, while France is set to hold a presidential election in April–May, so market participants should keep a close eye on developments.

Dealers' Market Forecast

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

Bullish on the euro (2 bulls: 1.0500–1.1100, Core: 1.0500–1.1100)

Yamashita	1.0500 – 1.1100	The UK is negotiating individually with various nations as it seeks to allay any harmful effects of Brexit. In fact, Brexit could end up having a positive impact on the UK economy. Though the eurozone remains fraught with political risk, the euro will be pulled along by pound bullishness, so the euro/dollar pair's downside could be capped.
Shimoyama	1.0500 – 1.1100	Despite uncertainty about the Trump administration, the dollar will be boosted by expectations for FRB rate hikes. On the other hand, though the eurozone faces a number of major political events this year, it still has a huge current account surplus, so the euro will be susceptible to buying on the whole. As such, it is hard to discern a clear sense of direction for either currency. Under these circumstances, the market's direction could be decided by real-demand euro buying.

Bearish on the euro (10 bears: 1.0000–1.1000, Core: 1.0300–1.0900)

Fujisaki	1.0200 – 1.1000	With a general election looming in Holland in March and a presidential election in France in April–May, the markets are well aware of political risk in the eurozone. The euro/dollar pair will trend down at times on political headlines, but in the end the single currency will probably be supported by real-demand flows. The currency pair is unlikely to fall sharply, but its downside will require monitoring.
Kato	1.0000 – 1.0800	With a number of elections lined up in Holland and France, for example, event risk cannot be ignored. If nothing major occurs, the euro be bought on the real-demand flow, but it is probably too early for investors to feel relaxed about buying the single currency.
Yano	1.0300 – 1.0800	Amid ongoing concerns about the situation in Italy, market participants will probably refrain from risk taking as they focus on impending national elections and other 'political events.' The euro/dollar pair's topside will also be held down by rising speculation about a Hard Brexit.
Takada	1.0400 – 1.0900	Given the political events lined up from March onwards (such as elections in Holland and France), market participants will find it hard to actively buy the euro. The dollar will be sold at times on uncertainty about the direction of the Trump administration, but this will probably be short-lived.
Sato	1.0300 – 1.1000	At the last ECB Governing Council meeting, ECB President Mario Draghi expressed the opinion that the recent rise in inflation was just a temporary phenomenon driven by rising crude oil prices. In doing so, he poured cold water on market expectations that quantitative easing would be tapered. He also provided justification for the ECB to continue pursuing an accommodative monetary stance. As market participants focus once again on the divergence in European and U.S. monetary policy, the euro/dollar pair is expected to move with a heavy topside.
Nishijima	1.0400 – 1.0900	The Trump Rally is gradually being wound back and the euro/dollar pair may be pushed up at times by dollar selling. However, the eurozone faces a number of major political events, so market participants will find it hard to actively buy the euro in the face of uncertainty about the future. With Italy likely to bring forward its general election, for example, the situation is fraught with political risk and in the end the currency pair will probably trade with a heavy topside.
Nishitani	1.0300 – 1.0800	The movements of the euro/dollar pair will continue to be swayed by headlines related to Trumponomics. However, there is a deep-rooted feeling among speculators and so on that the euro will trend lower in the mid-term, so the pair's topside will be held down at the $1.07 mark. There remain a number of euro-selling factors. The ECB has indicated it will continue to pursue easing, for instance, while Europe also faces political risk. As such, the euro looks set to move bearishly this month.
Moriya	1.0400 – 1.0900	Amid growing concerns about the policies of President Trump, the euro/dollar pair will probably be pushed up by the dollar's movements. At its meeting last month, though, the ECB Governing Council suggested it will continue to ease. With Europe also facing a lot of political risk this year, market participants will refrain from actively buying the single currency.
Tsuruta	1.0200 – 1.0900	There remain a lot of concerns about the direction of political events in Europe. Under these circumstances, market participants are unlikely to actively buy the euro. With Brexit negotiations also looming, the pound will probably trade with a heavy topside and this is likely to hold down the euro/dollar pair's topside too.
Okuma	1.0300	The euro/dollar pair will continue to be swayed by the behavior of President Trump, but with eurosceptic parties on the rise

	– 1.0900	in major European nations like Holland and France, concerns about political risk are smoldering away. Under these circumstances, market participants will find it hard to actively buy the euro, so the currency pair will probably trade with a heavy topside.

Anna Hibino, Europe Treasury Department

British Pound – February 2017

Expected Ranges	**Against the US$:**	**US$1.2100–1.2800**
	Against the yen:	**JPY137.00–146.00**

1. Review of the Previous Month

The pound/dollar pair opened the year trading at $1.23 on January 2. The UK Manufacturing PMI for December was released on January 3 and it hit its highest level in two-and-a-half years, with sterling bought as a result. However, the dollar also appreciated on the bullish results of the U.S. Manufacturing ISM Report on Business for December and the Construction Spending data for November, so the currency pair dipped to the lower-$1.22 level. The UK Construction PMI for December was released on January 4, with the Services PMI for December released the following day. The former hit a nine-month high, while the latter scored its best results for 17 months. The pound was bought back as a result, with the pair rising to the lower-$1.24 mark. The U.S. employment data was then released on January 6. With wages rising at the fastest pace for seven-and-a-half years, U.S. interest rates climbed and the dollar was bought, with the pound/dollar pair dropping back to $1.22.

Fears of a Hard Brexit grew again after UK Prime Minister Theresa May commented at the weekend that the UK would prioritize controlling immigration and repatriating legal powers, even if it meant losing access to the single market. The pound was sold during Asian trading time at the start of the week on January 9, with the pair falling to the $1.21 range. The UK trade balance for November was released on January 11. The deficit was larger than expected and this pushed sterling lower. With the dollar also being bought during European trading time on position adjustments in advance of a press conference by Donald Trump, the pound/dollar pair fell to the mid-$1.20 range. Trump did not mention any details about economic stimulus at his press conference, though, while his protectionist stance also raised alarm bells, so the greenback was sold across the board thereafter and the currency pair bounced back to $1.22.

Amid ongoing concerns of a Hard Brexit, the pair dropped down to the $1.20 range at the start of the week on January 16. At a press conference on January 17, Prime Minister May said the government would "put the final [Brexit] deal…to a vote in both Houses of Parliament." Sterling was bought back sharply as a result, with the pound/dollar pair soaring from the mid-$1.21 level to right around $1.24. The markets then slipped into wait-and-see mode in the days running up to Trump's inaugural speech on January 20, with the currency pair floating between the mid-$1.22 mark and the mid-$1.23 level. In the end, Trump once again failed to mention any details about stimulus policies in his inauguration speech. This led to a sense of disappointment and the dollar was sold comprehensively, with the pound/dollar pair climbing to the lower-$1.25 mark at the start of the week on January 23. On January 24, the UK High Court said the government would need parliamentary approval before it began Brexit negotiations. The markets had already factored in such a judgement, though, so the impact on the currency pair was negligible. The UK industrial production data for January was released on January 25 and it hit its highest level in roughly two years. With May also commenting that the government would examine other options besides Brexit if parliamentary approval was not forthcoming, the pair climbed to the $1.26 range.

2. Outlook for This Month:

In February the pound/dollar pair's movements will continue to be shaped by Brexit trends. Last month the High Court adjudged that the government would need parliamentary approval to invoke Article 50. As a result, the approval process will now move forward over the next two months or so. At this moment in time, the Brexit schedule is as follows:

January 31–February 1: The House of Commons will have its first debate on Article 50. This is expected to take 1–2 days. In the UK this first debate is officially known as the Second Reading. This sounds like a more appropriate name for the second debate, but the First Reading is just a formal procedure when the title of the bill is read out before parliament with any debate, so the Second Reading is actually the first debate on the matter.

The week beginning February 6: The bill continues to be debated in the House of Commons. At the first Committee stage, MPs will debate the original bill and each draft amendment tabled at the Second Reading. The amended bill is then discussed again at the Report stage. No more amendments can be made once the bill reaches the Third Reading, the final stage of the House of Commons debate. The Report stage is generally held on the same day.

The week beginning February 20: The bill goes to the House of Lords. The process here is the same as that for the House of Commons. If the House of Lords makes any amendments to the bill, it will then return to the House of Commons and the amendments will be debated there.

March 6–7: Both houses of parliament have to agree on the wording of the bill, so if the House of Commons then makes further amendments to the bill, it has to go back to the House of Lords again. This need for dual approval for every word and phrase often leads to bills swinging back and forth between the houses, with the process informally called 'ping-pong.' If there is an unbridgeable difference of opinion between the two houses and the ping-pong phases drags on for a prolonged period, the Parliaments Act states that the House of Commons can unilaterally pass the bill without the approval of the House of Lords after one year has passed since the bill was first drawn up.

March 13 (forecast): Once the bill is approved by both houses of parliament, it will go to Queen Elizabeth for Royal Assent. Once this is given, the bill will pass into law.

Miki Yamaguchi, Sydney Branch

Australian Dollar – February 2017

Expected Ranges	**Against the US$:**	**US$0.7300–0.7700**
	Against the yen:	**JPY83.00–88.00**

1. Review of the Previous Month

The AUD/USD pair rose sharply in January.

It began the month trading at the lower-USD0.72 mark on February 2. The minutes to the FOMC meeting was released on January 4 and they contained the phrase that 'almost all [participants] also indicated that the upside risks to their forecasts for economic growth had increased as a result of prospects for more expansionary fiscal policies in coming years.' However, the impact on the currency pair was muted. The U.S. Non-manufacturing ISM Report on Business for released on January 5. Though it hit its highest level in roughly one year, the greenback continued to be sold and the pair edged up to the upper-USD0.73 level. The U.S. employment data for December was released on January 6 and it confirmed that wages had increased. The U.S. dollar was bought back as a result and the pair dropped back to the upper-USD0.72 mark.

The greenback was sold on January 9 as European and U.S. bond yields fell after UK Prime Minister Theresa May hinted at a Hard Brexit. This saw the AUS/USD pair rebounding to the upper-USD0.76 mark again. At a press conference on January 11, Donald Trump made no mention of tax cuts or other aspects of economic policy, so the U.S. dollar was sold and the pair climbed to hit the mid-USD0.74 level. The U.S. unit continued to be sold on January 12 on disappointment about Trump's press conference. This saw the AUD/USD pair topping the crucial USD0.75 mark. It continued to float around USD0.75 thereafter.

In an interview with a U.S. newspaper on January 17, Trump gave dollar bullishness as one reason for the U.S. trade deficit. The greenback was subsequently sold and the currency pair rose to the upper-USD0.75 level. It continued to trade at USD0.75 thereafter. Trump's inaugural speech on January 20 emphasized the new president's 'America First' stance. The Whitehouse homepage then announced that the U.S. would be withdrawing from the Trans-Pacific Partnership (TPP) and renegotiating the North America Free Trade Agreement (NAFTA). With concerns rising about U.S. trade policy, the greenback moved with a heavy topside. As a result, the AUS/USD pair moved firmly at USD0.75. The U.S. dollar continued to be sold the following week and the pair climbed to USD0.7609.

2. Outlook for This Month:

'The AUS/USD pair will probably be swayed by Trump's comments and his budget message.'

Donald Trump was formally inaugurated as the 45th president of the United States on January 20. In his inauguration speech, Trump re-emphasized his 'America First' stance. The policies espoused by

Trump (namely tax cuts, infrastructure spending, deregulation, protectionism and correcting dollar bullishness) all stem from this America First perspective and they are sending a consistent message to America's working class. However, Trump's monetary and fiscal policies are fraught with contradictions. Trump has called for moves to correct the dollar's bullishness (and the bearishness of other currencies), but the tax cuts and other expansionary fiscal policies espoused by Trump will draw funds into the U.S., so they are intrinsically conducive to dollar strength. Furthermore, if these policies grow the U.S. economy and lead to inflation, U.S. policy rates could be lifted at a faster pace and this would also lead to dollar bullishness. The greenback's rise in the wake of Trump's election was due to growing market expectations for these kinds of policy effects. For now, market participants will probably sit back to see how these contradictions are addressed as Trump's policies are fleshed out. They will also be keeping an eye on the scale of these policies and the order in which they are prioritized. When it comes to fiscal policy, the first thing to focus on will be Trump's budget message, schedule for February or March. With regards to currency policy, meanwhile, the markets will be scrutinizing the U.S. foreign exchange report (scheduled for release in April) to see what restraints it imposes on other countries.

In Australia, meanwhile, attention was drawn to the release of the CPI data for October–December, 2016 last month. The data rose +1.5% y-o-y, while core inflation climbed by +1.55% y-o-y. This was in line with the inflation forecast (+1.5–2.5%) in the Quarterly Statement on Monetary Policy released by the Reserve Bank of Australia (RBA) in November 2016. As such, the RBA will probably keep policy rates fixed until the next round of CPI data is released at the end of April. This means RBA monetary policy is unlikely to have much of an impact on the Australian dollar for the time being.

For now, the AUS/USD pair's movements will be shaped in large part by the extent to which Trump implements his pledges, but if it looks like these policies are going to pass through Congress, the U.S. dollar will probably move bullishly (and the Australian dollar bearishly) again. On the other hand, Trump's pledge to correct the U.S. dollar's bullishness will probably act to hold down the greenback's topside (a factor pushing the Australian dollar higher). Though the AUD/USD pair will continue to be swayed by Trump's comments, it is expected to remain within the range (mid-USD0.71–mid-USD0.77) it has traded in since Trump's election victory in November 2016.

Australian indicators and events to watch out for this month include the trade balance (February 2), the retail sales figures (February 6), the RBA meeting (February 7), the employment data (February 16), and the private-sector capital investment data (February 23).

Yukihiro Mitsuno, Americas Treasury Department

Canadian Dollar – February 2017

Expected Ranges	**Against the US$:**	**C$1.3000–1.3680**
	Against the yen:	**JPY82.00–89.60**

1. Review of the Previous Month

The USD/CAD pair fell in January.

It opened the month trading at C$1.3440. Amid thin liquidity at the start of the month, the pair then hit a monthly high of C$1.3461. However, with WTI crude oil futures moving firmly at the mid-$50 mark, the pair then fell down to around C$1.3260. Canada's employment data for December was released on January 6. The net change in employment figure was up significantly on expectations and the loonie was bought as a result, with the currency pair falling to C$1.3178. The U.S. average hourly wages figure for December (month-on-month) was released at the same time, though, with wages rising at their fastest pace since 2009. This reconfirmed the firmness of the U.S. labor market and the U.S. dollar was bought back to C$1.3240 against its Canadian counterpart.

With Donald Trump scheduled to give his first press conference since his election victory mid-January, the pair fluctuated gently at the lower-C$1.32 level. At his press conference on January 11, Trump stuck largely to themes he had already discussed before. The markets had expected him to talk about fiscal expansion or tax cuts, for example, so his silence on these matters was met with a wave of disappointment and the greenback was sold off. Furthermore, Trump's lack of political experience was exposed when he launched a personal attack on a major U.S. carmaker through social media, so U.S. stocks and interest rates came under some adjustment after having soared at the year's end on the so-called Trump Rally. During this time, the USD/CAD pair fell to C$1.3030. This marked the pair's lowest level since mid-October, though, so it was met with some strong appetite for U.S.-dollar buying. With comments by high-ranking FRB officials also supporting the forecast for three rate hikes in 2017, the pair bounced back to around C$1.3140.

In the latter half of January, UK Prime Minister Theresa May said that she would "put the final [Brexit] deal…to a vote in both Houses of Parliament." This led to speculation that May would avoid presenting a hard Brexit bill in order to ensure it passed through parliament. As risk aversion eased off, the USD/AUD pair dropped to C$1.3019. However, Bank of Canada (BOC) Governor Stephen Poloz then made some dovish comments when the BOC Governing Council met on January 18. He said exports and the housing market continued to face downside risks, for example, and he also touched on the possibility of a rate cut. The Canadian dollar was sold as a result, with the currency pair rising to C$1.3270. FRB Chair Janet Yellen then commented that the FRB was close to reaching its major policy goals of full employment and 2% inflation. As a result, U.S. long-term interest rates rose and the greenback moved bullishly, with the pair climbing to around C$1.3350.

At the end of January, President Trump issued a presidential decree approving the Keystone XL Pipeline, a project led by a major Canadian energy firm to transport crude oil from Canada to the United States. The Canadian dollar was subsequently bought, with the pair dropping to C$1.3062. Trump then intervened verbally to curb the greenback's strength. With Canada's GDP data for November also topping expectations, the USD/CAD pair dropped to a monthly low of C$1.2969 before closing the month at C$1.3033.

2. Outlook for This Month:

The USD/CAD pair is expected to trade in a range in February.

President Trump has fumed about trade with Mexico and this had led to concerns that he will seek to renegotiate the North America Free Trade Agreement (NAFTA). However, U.S. corporations have already set up in Canada and Mexico under NAFTA and the U.S. economy would also be hit by the imposition of tariffs, so most observers are not expecting any sudden, major reforms in this area. The U.S. swallows up the lion's share of Canada's exports, so it will be a positive factor for the Canadian dollar is the terms of NAFTA are left untouched. Trump's presidential decree authorizing the Keystone XL Pipeline project is also a step towards maintaining good relations between Canada and the United States.

At the same time, though, BOC Governor Stephen Poloz's dovish comments at the BOC Governing Council meeting will act as a selling factor for the Canadian unit. With Poloz also leaving the door open for a rate cut, investors will probably buy the greenback and sell the loonie on widening U.S./Canadian interest-rate differentials. Furthermore, the price of crude oil is currently peaking out at $56 and it looks set to continue moving at the lower-$50 mark going forward, so its impact on the currency pair is likely to be muted. The NY Dow Jones renewed a record high of $20,000 at the end of January. If the Trump administration unveils some stimulus measures in February, the greenback will probably be bought as U.S. stocks and interest rates rise again.

Though Trump's policies since his inauguration have eased concerns about Canadian/U.S. trade relations, the Bank of Canada has adopted a dovish stance and there are also expectations for a rise in U.S. stock prices and interest rates. As a result, the USD/CAD pair is expected to trade in a range between C$1.2840–C$1.3240.

Tomohiro Yamaguchi, Seoul Treasury Office

Korean Won – February 2017

Expected Ranges	**Against the US$:**	**KRW1,130–1,190**
	Against the yen:	**JPY9.62–9.85 (KRW100)**
		(KRW10.15–10.40)

1. Review of the Previous Month

The dollar/won pair fell in January after President Donald Trump and other high-ranking U.S. officials intervened verbally to curb the dollar's rise.

The pair weakened slightly at the start of the month. Trading began on January 2 at 10am, one hour later than usual. The pair opened the year trading at KRW1206.0, down 1.7 won on the end of December. It then rose to a monthly high of KRW1211.8 on January 3, its highest level since March last year. The minutes to the FOMC meeting were released during overseas trading time on January 4. Though the minutes expressed optimism about the economy, U.S. interest rates subsequently fell and the dollar followed suit. The pair tumbled to KRW1183 for a time on the morning of January 6. The U.S. employment data for December was released during overseas trading time on the same day. The average hourly wages data topped market expectations and this hinted at full employment, with the greenback subsequently rising. The dollar/won pair topped its level from the end of December once more, but with a Trump press conference looming on January 11, it then slipped back under this level again, with the pair also buffeted by concerns of a Hard Brexit following comments by UK Prime Minister Theresa May.

The pair fell further from mid-to-late January. At his closely-watched press conference on January 11, Trump did not really touch on any policy details. In an interview with the Wall Street Journal on January 13, meanwhile, Trump said the dollar was already 'too strong.' Another nominee government official also made comments aimed at curbing the dollar's rise on January 17. With concerns about a Hard Brexit also easing off, the greenback moved bearishly. The dollar/won pair slid to KRW1162.5 on January 18. The pair pared back some of its losses during overseas trading time on January 18 after FRB Chair Janet Yellen stated that she and a majority of her colleagues expected to raise rates a 'few times' this year. Trump's inaugural speech on January 20 contained no new announcements. With Trump also reiterating his protectionist stance, the dollar/won pair fell further before the Korean New Year holiday over January 27–30. It dipped to a monthly low of KRW1156.0 on January 26 and then dropped slightly below its December low. The pair had returned to KRW1170 by the start of trading on January 31, after the Korean New Year holiday, but its topside was weighed down at the month's end by won buying and so on, so it closed January at KRW1162.1, down 45.6 won on the end of December.

2. Outlook for This Month:

The dollar/won pair is expected to move with a heavy topside in February.

Its movements continue to be shaped by President Trump's stance and in January it weakened on the back of verbal interventions to curb the dollar's rise. The dollar looks set to move with a heavy topside in the near future. There is a dearth of any factors on the South Korean side. The Bank of Korea (BOK) is expected to leave policy rates unchanged in February too. President Park Geun-hye powers have been suspended and acting president Hwang Kyo-ahn has stepped into her shoes. Though this has led to some political turmoil, presidential duties are starting to be performed again. As a result of the above, the dollar/won pair is expected to move with a heavy topside in February.

However, if U.S. interest rates rise sharply and it looks like the dollar will start climbing again, the currency pair could also rise once more. The pair is also prone to rising at the start of February, so caution will be needed.

There has been no particular progress when it comes to President Park Geun-hye's impeachment trial. Impeachment would require the assent of six of the nine acting judges, but resignations or abstentions count as a vote against the move. Park Han-Chul, the President of the Constitutional Court, is stepping down at the end of his term on January 31. The term of another judge, Lee Jung-Mi, is also set to end on March 13. If the decision is delayed until after Lee steps down, impeachment will require the assent of six of the seven remaining justices. As a result, justice Park January-Chul has urged the court to reach a decision before March 13.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – February 2017

Expected Ranges	**Against the US$:**	**NT$30.40–31.80**
	Against the yen:	**JPY3.61–3.68**

1. Review of the Previous Month

The USD/TWD pair's movement in January were marked by U.S.-dollar bearishness and Taiwan-dollar bullishness.

The pair opened the month at TWD32.330. Amid thin trading and a shortage of market participants at the start of the year, the pair fluctuated in a narrow range around TWD32.2. The greenback then began sliding and the Taiwan dollar climbing as: U.S. interest rates fell; foreign investors increased their on-balance buying in Taiwanese stock markets; and the USD/RMB pair weakened. As a result, the USD/TWD pair fell to TWD31.993 in the run up to the release of the U.S. employment data for December.

The U.S. employment data was released on January 9. Nonfarm payrolls rose by +156,000, down on market expectations for a rise in the region of +175,000, but average hourly wages grew by +2.9% year-on-year, the fastest growth since June 2009. This saw the U.S. dollar climbing, with the USD/TWD pair rising to the TWD32.1 mark. However, the greenback then fell and the Taiwan dollar rose as the Dollar Index trended downwards, with the pair's post-employment-data gains wiped out in just one day. On January 11, Donald Trump gave his first press conference after his election victory. The new president grumbled about America's trade deficit with Japan, China and Mexico. He also spoke strongly about his protectionist policies. This saw the greenback weakening in Taiwanese markets on January 12, with the currency pair dropping to TWD31.5.

After having plummeted in the first half of January, the pair began swinging upwards again in the latter half of the month. The Taiwan dollar was also sold as foreign investors conducted more on-balance selling in Taiwanese stock markets, so the pair rose to TWD31.745 at one point, but amid concern about the Trump administration's protectionism, the Dollar Index fell and the currency pair weakened again. It rebounded to the TWD31.7 mark on hawkish comments by FRB Chair Janet Yellen, but greenback-buying was short-lived and the pair fell to TWD31.533 in the run up to Trump's inauguration.

Trump merely reiterated previous pledges at his inaugural speech, but the USD/TWD pair moved bearishly towards the end of the month as the new administration introduced several protectionist policies and made a series of comments aimed at curbing dollar bullishness.

2. Outlook for This Month:

The USD/TWD pair's movement in February will continue to be marked by U.S.-dollar bearishness and Taiwan-dollar bullishness.

A glance at the Taiwanese economic indicators released in January shows exports growing by +14.0% y-o-y in December, the second month of double-digit growth. On a standalone monthly basis this was the fastest rate of growth since January 2013. A breakdown of the figures reveals that exports of electronic parts and IT/telecommunication products (two major Taiwanese industries) grew by +24.3% y-o-y and +9.3% y-o-y, respectively. Exports to China (which sucks up 40% of all Taiwan's exports) rose by +21.4% y-o-y. Though exports recorded a year-on-year fall for 2016 as a whole, the strong performance in the latter half of the year helped to shrink the scale of the contraction, with Taiwan's Finance Ministry voicing optimism that the Taiwanese economy would enjoy a steady recovery going forward. Taiwan's GDP data for October–December was also pulled up by a recovery in exports of semiconductors and so on, with GDP growing by +2.58% y-o-y, its fastest pace of growth in two years, since January–March, 2015. With the Trump administration strengthening its protectionist stance, market participants will pay close attention to economic indicators released from February onwards to see whether the economy is continuing to grow steadily.

The biggest factor for the USD/TWD pair in February will be the actions of the new Trump administration. Trump was formally inaugurated as president on January 20. From here on, the greenback will be pushed up by economic stimulus (large-scale tax cuts and infrastructure spending, etc.). It will also be boosted by the FRB's hawkish stance as economic indicators move strongly and economic forecasts improve on the back of these stimulus measures. As the same time, though, the U.S. unit will face depreciatory pressure from the Trump administration's hard protectionist stance. As a result, the USD/TWD pair is expected to continue swinging up and down for the time being. However, most observers believe the effects of Trump's economic policies will not be felt until at least six months has passed, so in the short term the pair is likely to swing lower on moves to curb the greenback's bullishness.

Furthermore, Holland, France and Germany will all be holding elections from March onwards. If opinion polls point to a surge in support for anti-EU parties, risk aversion will intensify, so caution will be needed.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – February 2017

Expected Ranges	**Against the US$:**	**HK$ 7.7500–7.7650**
	Against the yen:	**JPY 14.17–15.00**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in January

In January, the Hong Kong dollar appreciated against the U.S. dollar temporarily to the HKD 7.754 level. However, the U.S. dollar/Hong Kong dollar exchange rate bottomed out thereafter, and the Hong Kong dollar started to gradually depreciate against the U.S. dollar. However, the exchange rate did not exceed the HKD 7.76 level. After the U.S. Presidential election, the U.S. dollar had been appreciating, thanks to mounting expectations for an assertive fiscal policy to be taken by new U.S. President Donald Trump. In January, however, market participants started to feel dubious about his new fiscal policy and were encouraged to unwind long positions (U.S. dollar-buying). Under such conditions, there has been demand to convert deposits in offshore Chinese yuan into Hong Kong dollars, which has been supporting the Hong Kong dollar exchange market. The one-year U.S. dollar/Hong Kong dollar forward rate fell from the 200-point level observed last month to the –100-point level due to the fact that market participants started to slow down their activities to procure offshore Chinese yuan (by selling the Hong Kong dollar and buying offshore Chinese yuan) when the liquidity strain in offshore Chinese yuan has been eased.

Hong Kong dollar interest rate market in January

In January, the Hong Kong dollar interest rates remained unchanged, and the benchmark interest rate, the three-month Hong Kong dollar HIBOR, was at the 1% level, as was the case in the previous month. The interest rate differential between the three-month Hong Kong dollar HIBOR and the three-month U.S. dollar LIBOR shows the level of the Hong Kong dollar HIBOR below the level of the U.S. dollar LIBOR, as it is currently difficult to imagine an excessive amount of funds flowing out of the Hong Kong market, while market participants started to take interest rate hikes by the FRB in 2017 into consideration. In the times ahead, the Hong Kong dollar interest rates are forecast to gradually start following the trends of the U.S. dollar interest rate. The current account balance of the Hong Kong Monetary Authority (HKMA), which is used as a standard to measure the interbank liquidity level, turned out to be HKD 260 billion, remaining high. With regard to short-term interest rates, the overnight Hong Kong dollar HIBOR rose rapidly due to growing needs for capital procurement toward the beginning of the year and due to the strain in liquidity in the offshore Chinese yuan market. However, the overnight Hong Kong dollar HIBOR has now fallen to a level below 0.1%.

Hong Kong stock market in January

The benchmark Hang Seng Index climbed from the 21,000 level observed in the previous month to the 23,000 level, and funds are starting to return to the Hong Kong stock market with diminishing expectation for an assertive fiscal policy to be taken by new U.S. President Donald Trump. In addition, regulations to pressure capital outflow have been strengthened in Mainland China, which has seems to be encouraging investors in Mainland China to increase their investment in the Hong Kong stock market using the China–Hong Kong stock connect system. This capital flow also supported the stock market in Hong Kong.

2. Outlook for This Month:

Hong Kong dollar spot exchange market in February

In February, the U.S. dollar/Hong Kong dollar exchange rate is expected to fluctuate between HKD 7.750 and HKD 7.765. It should be pointed out that the appreciation of the U.S. dollar after the inauguration of Donald Trump as the new U.S. President is likely to be corrected in an accelerated manner in the times ahead. It is expected that a new fiscal policy will be taken by the new U.S. President Donald Trump in the second half of 2017 or later. Therefore, economic growth in the U.S. and the interest rate hikes by the FRB are likely to be hindered by measures to control external trades and the excessive appreciation of the U.S. dollar, before the economic stimulus measures are taken. As a result, pressure for capital outflow from the Hong Kong dollar exchange market is likely to weaken in the times ahead, keeping the U.S. dollar from appreciating further against the Hong Kong dollar. Market participants expect that the new government after the upcoming Legislative Council election in Hong Kong will not cause a dramatic change in the U.S. dollar peg system, along with the status of Hong Kong as a financial hub. Thus, the domestic market sentiment is expected to remain moderate. Also, the one-year U.S. dollar/Hong Kong dollar forward rate is forecast to start gradually falling from the current level, as a result of weakening pressure for capital outflow from the Hong Kong dollar exchange market as well as the easing strain in the liquidity in the offshore Chinese yuan market.

Hong Kong dollar interest rate market in February

Under the U.S. dollar peg system, the Hong Kong dollar interest rates are expected to start gradually rising, following the trend of the U.S. interest rates. The Hong Kong Monetary Authority (HKMA) has been showing its attitude to keep the current high liquidity level by slowing down the additional issuance of foreign exchange fund short-term bonds, which are meant to absorb funds from the market. However, the Hong Kong dollar interest rates are likely to be pushed up in the end, due to the accelerated interest rate hikes by the FRB in 2017. It should however be noted that market participants will no longer expect the Chinese yuan to be excessively cheaper in the times ahead, which could mitigate concerns over capital outflow from the Hong Kong dollar exchange market along with the sharp appreciation of Hong Kong dollar interest rates. With such domestic factors, the interest rate differential between the Hong Kong dollar and the U.S. dollar is expected to remain at the existing level.

Chihiro Agekido, Treasury Division, MHBK (China)

Chinese Yuan – February 2017

Expected Ranges	**Against the US$:**	**CNY 6.7500–7.0500**
	Against the yen:	**JPY 15.46–17.63**
	Against 100 yen:	**CNY 5.7300–6.4000**

1. Review of the Previous Month

Foreign exchange market

In January, the Chinese yuan appreciated against the U.S. dollar because of the correction of the appreciation of the U.S. dollar that continued after the U.S. Presidential election in November last year. At the beginning of the month, the U.S. dollar/Chinese yuan actual trading rate opened trading at the mid-CNY 6.95 level. The first People's Bank of China (PBOC) central parity rate after the change of the basket currencies of the CFETS Chinese yuan index was set toward a stronger Chinese yuan against the U.S. dollar, compared to expectations in the market. As a result, the Chinese yuan started to appreciate against the U.S. dollar, also due to the correction to the appreciation of the U.S. dollar observed previously. In addition, the liquidity level in the offshore market started to fall, which raised the interest rates in the offshore Chinese yuan market. As a result, market participants started to unwind sell positions in offshore Chinese yuan, leading the offshore Chinese yuan to appreciation. Following this trend, the onshore Chinese yuan also started to appreciate against the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate reached the upper-CNY 6.86 level on January 5. The Chinese yuan continued appreciating in the offshore market, and the U.S. dollar/Chinese yuan exchange rate once reached the mid-CNH 6.78 level. As a result, the offshore Chinese yuan became stronger than the onshore Chinese yuan (the reversed gap between the onshore exchange rate and the offshore exchange rate). On January 11, there was a press conference regarding new U.S. President Donald Trump, but he did not mention any detailed plan related to economic stimulus plans, which market participants were expecting. As he also emphasized his protectionist attitude, market participants started to sell the U.S. dollar. As a result, the Chinese yuan appreciated against the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate, which had by then returned to a level near the CNY 6.93 level, fell below CNY 6.90 again. Furthermore, new U.S. President Donald Trump mentioned his concerns over the appreciation of the U.S. dollar, which led the U.S. dollar/Chinese yuan exchange rate to approach CNY 6.83. However, it returned back to around CNY 6.87 because of FRB Chair Janet Yellen's positive remarks regarding interest rate hikes in 2017. Then, on January 20, new U.S. President Donald Trump did not give any more details related to his economic measures at his inauguration ceremony. As a result, market participants more actively sold the U.S. dollar also due to concerns over the appreciation of the U.S. dollar. Before the Chinese New Year, the Chinese yuan depreciated temporarily against the U.S. dollar because of consumer actions to buy the U.S. dollar and sell the Chinese yuan. Before the holidays, the U.S. dollar/Chinese yuan exchange rate fluctuated significantly between CNY 6.85 and CNY 6.88.

Interest rate market

There was high demand for funds to prepare for the Chinese New Year, keeping the liquidity level low, as a result of which interest rates continued to rise.

At the beginning of the month, the overall capital in the market was absorbed for consecutive days as a result of open-market operations. However, the current liquidity level remained high after the end of the year. However, there was high demand for funds to prepare for the Chinese New Year, and from the second week of the month, the 28-day capital supply increased to cover the period of the Chinese New Year. However, the SHIBOR curve climbed significantly for all lengths. On January 20, the media reported that the Chinese monetary authorities had carried out some support measures for the five largest banks in China, in order to ease the liquidity level in the market. In reaction to this, interest rates started to fall gradually, easing the liquidity strain. It should also be mentioned that the medium-term lending facility (MLF) was carried out on January 24 and the interest rate was raised by 0.1% from last time. Even though the immediate impact of this on the capital market was minimal, this demonstrated the intention of the Chinese monetary authorities to tighten the monetary policy.

2. Outlook for This Month:

Foreign exchange market

The Chinese yuan is forecast to weaken from the current level against the U.S. dollar in February.

While the actions to be taken under the new administration of U.S. President Donald Trump continue to attract substantial attention in the market, the appreciation of the U.S. dollar has now started to be corrected. However, in general, the U.S. dollar/Chinese yuan exchange market is more likely to follow the U.S. dollar exchange market when the U.S. dollar is stronger (with the Chinese yuan depreciating against the U.S. dollar) than when the U.S. dollar is weaker. Thus, it seems that pressure to sell Chinese yuan tends to be stronger on such occasions. Furthermore, the Chinese monetary authorities are seen to be intervening in the market by selling U.S. dollars and buying Chinese yuan, by cutting foreign currency reserves. However, in December, the foreign currency reserves exceeded JPY three trillion, which is a psychological turning point, but only a light margin. This means that, in the times ahead, it will be difficult for the Chinese monetary authorities to continue intervening in the market, as it has done so far. Under such conditions, the U.S. dollar/Chinese yuan exchange market is still likely to follow factors related to actions taken by the Trump administration in February, while the Chinese yuan is more likely to depreciate against the U.S.

dollar with few factors to encourage market participants to buy the Chinese yuan. However, the Chinese monetary authorities are expected to continue intervening in the foreign exchange market to a certain extent, albeit to a reduced degree, in order to maintain the stability in the market. The Chinese yuan is therefore unlikely to depreciate sharply.

Interest rate market

After the Chinese New Year, the liquidity strain will be eased, lowering the interest rates that were on a rise. However, the interest rate for the MLF that was carried out in January (for six months and 12 months) was raised by 0.1% compared to last time. Even though the interest rate has not been raised for open-market operations, it seems that the Chinese monetary authorities are attempting to tighten the monetary policy this year compared to last year. Therefore, it is difficult to expect interest rates to continue falling one-sidedly in the times ahead.

Noriko Suzuki, Asia & Oceania Treasury Department

Singapore Dollar – February 2017

Expected Ranges	**Against the US$:**	**SG$ 1.4000–1.4450**
	Against the yen:	**JPY 79.00–81.50**

1. Review of the Previous Month

The Singapore dollar rallied against the U.S. dollar in January, due to the correction to the appreciation of the U.S. dollar.

The U.S. dollar/Singapore dollar exchange market opened trading in January at around SGD 1.45, as the U.S. dollar appreciated after the interest rate hike in the U.S. On January 3, the U.S. dollar strengthened as a result of the improved result of the December ISM Manufacturing Report on Business for the U.S., while there were few market actions. As a result, market participants sold the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate approached the mid-SGD 1.45 level, renewing the lowest rate for the Singapore dollar in seven years. However, this turned out to be the bottom, and the Singapore dollar started to rally thereafter. On January 4 and 5, market participants speculated that the Chinese monetary authorities are considering capital restrictions in order to stop the Chinese yuan from depreciating, while the People's Bank of China (PBOC) tightened the liquidity level in the offshore market, sharply raising the short-term interest rates in the offshore Chinese yuan (CNH) market. As a result, the Chinese yuan appreciated sharply against the U.S. dollar for consecutive days. Following the appreciation of the Chinese yuan, the Singapore dollar was also bought back, and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.42 level on January 5. It should however be mentioned that on January 6, the December employment statistics of the U.S. were released, and the average hourly wage recorded the greatest increase in seven years, which fueled inflation expectation. As a consequence, the U.S. dollar rallied against many other currencies. Following this trend, the U.S. dollar/Singapore dollar exchange rate also returned to a level near SGD 1.44.

Even though there were some fluctuations in the market in the following week, the Singapore dollar remained generally strong. On January 9 at the beginning of the week, the Singapore dollar continued depreciating against the U.S. dollar to the lower-SGD 1.44 level, following the trend from the previous week. However, the Singapore dollar did not depreciate further and rallied to the lower-SGD 1.42 level after the press conference of new U.S. President Donald Trump on January 11, which lacked details regarding his new policy. In the second half of the week, the Singapore dollar started to weaken again due to profit-taking activities in the market. On January 13, the December retail sales of the U.S. turned out to be stronger than expected, which led the U.S. dollar/Singapore dollar exchange rate to return to the lower-SGD 1.43 level.

In the third week of January, the U.S. dollar/Singapore dollar exchange rate fluctuated in a sensitive manner after the remarks by new U.S. President Donald Trump, made to warn about the appreciation of the U.S. dollar. However, there was no other major factor, and the U.S. dollar/Singapore dollar exchange rate remained within a narrow range. On January 17, the media reported a remark by new U.S. President Donald Trump, who pointed out that "the U.S. dollar has been appreciating excessively due to the depreciation of the Chinese yuan." In reaction to this, the U.S. dollar depreciated dramatically. Following this trend, the Singapore dollar appreciated sharply to approach the mid-SGD 1.41 level. However, before the inauguration ceremony of the new U.S. President, market participants immediately started to sell so as to close their positions, due to cautious sentiment. As a result, on January 18, the U.S. dollar/Singapore dollar exchange rate returned to a level near SGD 1.43. In the evening of the same day, FRB Chair Janet Yellen made a remark to emphasize that the interest rate should be raised at a moderate rate, and this was understood in the market in a distorted manner that there would be several occasions of interest rate hikes in the U.S., which also led the U.S. dollar to appreciate. On January 20, new U.S. President Donald Trump made a speech at his inauguration ceremony but did not mention any details, such as a tax cut plan. As a result, market participants sold the U.S. dollar with disappointment. As a result, the Singapore dollar rallied against the U.S. dollar to the mid-SGD 1.42 level.

In the fourth week of January, the U.S. dollar continued to depreciate with a persistent sense of uncertainty regarding the feasibility of the new policy to be taken by new U.S. President Donald Trump. On January 23, the next U.S. Secretary of Treasury Steven Mnuchin made a remark that it would not be good from a short-term perspective for the U.S. dollar to be too strong, which also encouraged market participants to sell the U.S. dollar. As a result, the Singapore dollar continued appreciating against the U.S. dollar to the lower-SGD 1.41 level, reaching its high in two months. Thereafter, market participants adjusted positions before the consecutive holidays for the Chinese New Year, which led the Singapore dollar to depreciate against the U.S. dollar to the upper-SGD 1.42 level.

2. Outlook for This Month

In February, the Singapore dollar is forecast to be weak against the U.S. dollar, following various factors related to economic measures under the new government in the U.S.

The Singapore dollar has weakened significantly against the U.S. dollar since November last year because of the synergy of the two factors, expectations for economic stimulus measures suggested by new U.S.

President Donald Trump such as large-scale investment in infrastructure and large-scale tax cuts, and the appreciation of U.S. interest rates. Even though the trend was reversed and the Singapore dollar rallied against the U.S. dollar in January, the U.S. dollar is expected to remain strong in general in the times ahead, as U.S. interest rates remain high and as stock prices continue appreciating in the U.S. Therefore, the Singapore dollar is expected to remain weak in general in February. However, there is a persistent sense of uncertainty over the feasibility of the economic stimulus plans suggested by President Donald Trump. The depreciation of the Singapore dollar is therefore not likely to be excessive. Market participants are waiting for details regarding the new measures such as tax reforms and investment in infrastructure after the inauguration of the next U.S. Secretary of the Treasury. The U.S. dollar/Singapore dollar exchange rate may also fluctuate, sensitively reacting to media reports related to such information.

When it comes to conditions in Singapore, the protectionist approach of the trade policy of President Donald Trump may negatively affect the Singaporean economy, which is highly dependent on exports to the U.S. Furthermore, the U.S. trade policy may slow down the Chinese economy and weaken the Chinese yuan, which may also weaken the Singaporean economy, and this is encouraging market participants to sell the Singapore dollar. Therefore, among Asian countries, the Singapore dollar is particularly likely to weaken in the times ahead. It should however be mentioned that in December, the Consumer Price Index (CPI) of Singapore recorded positive growth for the first time in approximately two years, demonstrating the mitigation of deflation. The Monetary Authority of Singapore (MAS, the central bank of Singapore) is therefore unlikely to shift its policy toward monetary easing.

Yuki Inoue, Bangkok Treasury Office

Thai Baht – February 2017

Expected Ranges	**Against the US$:**	**BT 35.00–36.50**
	Against the yen:	**JPY 3.10–3.30**

1. Review of the Previous Month

The U.S. dollar/Thai baht exchange rate remained low in January. In the first part of the month, the U.S. dollar/Thai baht exchange rate remained low. On January 2, the U.S. dollar/Thai baht exchange market opened trading at the THB 35.80 level. The Thai market was closed on January 2 and 3. When the December ISM Manufacturing Report on Business of the U.S. turned out to be stronger than expected in the market, the U.S. dollar/Thai baht exchange rate once reached the upper-THB 35.90 level, the monthly high in January. However, the appreciation slowed down before reaching THB 36.00. On January 4 and 5, the Chinese yuan appreciated against the U.S. dollar. As a result, U.S. dollar-selling was dominant and the U.S. dollar/Thai baht exchange market fell to the THB 35.60 level. On January 6, the December employment statistics of the U.S. were released, and the results were considered to be favorable for the interest rate hike by the FRB. As a result, market participants started buying the U.S. dollar. Following this trend, the U.S. dollar/Thai baht exchange rate also returned to the THB 35.70 level. Thereafter, the U.S. dollar/Thai baht exchange rate remained at the same level with little signs of movement at around the THB 35.60 level before the press conference of new U.S. President Donald Trump. On January 10, the governor of the central bank of Thailand (BOT), Veerathai Santiprabhob, made a remark that Thailand has enough foreign currency reserves to cope with market volatility. Then, in the middle of the month, the U.S. dollar/Thai baht exchange rate continued falling. On January 11, there was a press conference for new U.S. President Donald Trump, but he did not mention any details regarding the economic stimulus plan that market participants were waiting for. As a result, market participants sold the U.S. dollar, and the U.S. dollar/Thai exchange rate fell to the THB 35.30 level. However, on January 13, the December trade statistics of China were released with a decline of exports that was more significant than expected. In reaction to this, market participants started to sell the Thai baht. As a result, the U.S. dollar/Thai baht exchange rate rallied to the THB 35.40 level.

Thereafter, the U.S. dollar/Thai baht pair continued trading within a narrow range at the THB 35.40 level. On January 17, market participants sold the U.S. dollar due to concerns over a "hard Brexit" before the speech by U.K. Prime Minister Theresa May. As a result, the U.S. dollar/Thai baht exchange rate reached the THB 35.30 level again. At the speech by Prime Minister Theresa May, the concern over a "hard Brexit" was mitigated. However, new U.S. President Donald Trump made a remark during an interview with a

U.S. newspaper that the U.S. dollar has been too strong. As a result, the U.S. dollar/Thai baht exchange rate fell to the lower-THB 36.20 level toward January 18. Thereafter, the Summary of Commentary on Current Economic Conditions by the Federal Reserve District was released in the U.S., revealing an optimistic outlook for the U.S. economy. Furthermore, FRB Chair Janet Yellen made a positive remark regarding interest rate hikes. As a consequence, the U.S. dollar rallied and the U.S. dollar/Thai baht exchange rate rose to the mid-THB 35.40. In the last part of the month, the U.S. dollar/Thai baht exchange rate remained low without moving into any direction. On January 20, it turned out that there was no new factor in the speech by new U.S. President Donald Trump at his inauguration ceremony, and thus there was little impact on the exchange market. On January 23, President Trump signed an executive order to leave the TPP, fueling concerns over protectionism. Furthermore, the next U.S. Secretary of Treasury Steven Mnuchin made a warning regarding the appreciation of the U.S. dollar. In reaction to this, market participants sold the U.S. dollar, and the U.S. dollar/Thai baht exchange rate fell sharply to the lower-THB 35.20. On January 24, the Ministry of Commerce released the December trade statistics of Thailand, and exports recorded a year-on-year growth of 6.2%, lower than expected in the market. However, the annual export figure for 2016 turned out to record positive year-on-year growth. On the same day during local time, the media reported that new U.S. President Donald Trump signed an executive order to build a crude oil pipeline, which fueled risk-taking sentiment in the market. As a result, the U.S. dollar/Thai baht exchange rate rallied to the lower-THB 35.20. Then, on January 25, the Dow Jones Industrial Average in New York reached the USD 20,000 point mark for the first time in history. However, its impact on the U.S. dollar/Thai baht exchange market was limited. The U.S. dollar/Thai baht exchange rate hovered around at the lower-THB 35.20 level. Toward the end of the month, exporting companies bought the Thai baht, and stock prices depreciated in the U.S., leading the U.S. dollar/Japanese yen exchange rate to fall. Following this trend, the U.S. dollar/Thai baht exchange rate also fell to the THB 35.10 level.

2. Outlook for This Month:

The U.S. dollar/Thai baht exchange rate is forecast to remain low in February.

The Thai economy has been relatively favorable based on indices related to market sentiment that have recently been released, thanks to the measures to encourage personal consumption taken at the end of the year. Similarly, there was a visa exemption measure taken at the end of the year for visitors from certain countries, which led the number of overseas tourists in Thailand, which was on a decline, to rally. Even though the majority of the citizens in Bangkok are still in mourning, marking the 100th day after the death of King Bhumibol Adulyadej, it seems that there has been no further excessive atmosphere of self-imposed control. In January, the December Consumer Price Index (CPI) was released, and the result turned out to be +1.13% year-on-year, recording the highest level since November 2014. Annual growth in 2016 was only 0.2%, and this was under the target range set out by the central bank of Thailand (BOT), +1.00% to

+4.00%. However, the figure is on the rise. The central bank governor, Veerathai Santiprabhob, shared his somewhat optimistic view regarding the outlook of the Thai economy at a press interview carried out in the previous month, emphasizing that the Thai economy is likely to expand in a wider area, while also confirming that the central bank would keep the monetary policy moderate in order to support economic recovery. Throughout 2016, the BOT did not use the option to cut the interest rate, while the surrounding ASEAN nations were competing with their interest rate cuts. The BOT is thus expected to maintain its policy interest rate at the existing level this year again.

With regard to external factors, the central factor remains in issues related to new U.S. President Donald Trump. As President Trump signed an executive order to leave the TPP at an early stage, as had been promised previously, some people see that this was a positive factor for Thailand, which was originally not a TPP member. Furthermore, immigration to the U.S. from certain Islamic countries has been banned, which is leading some people to have an optimistic view, expecting the number of tourists in Thailand to increase. However, even if the U.S. really continues its protectionist approach and strengthens its economy on its own, the overall global economy is more likely to decline, including that in Thailand.

The U.S. dollar started to appreciate in November last year. The U.S. dollar/Thai baht exchange rate peaked out at around the THB 36 observed toward the end of last year, after which the Thai baht has been gradually appreciating against the U.S. dollar. It is difficult to expect that the U.S. will let the U.S. dollar to continue appreciating. Furthermore, the gradual interest rate hikes planned by the FRB have already been reflected in the market and are not encouraging market participants to buy the U.S. dollar any longer. Given such conditions, the Thai baht is likely to start appreciating against the U.S. dollar again, thanks to the current account surplus of Thailand. The U.S. dollar/Thai baht exchange rate has already been approaching the THB 35.00 level, which was observed before the U.S. Presidential election carried out in November. Market participants should remain cautious regarding the actions to be taken by the BOT when the U.S. dollar/Thai baht falls below this level.

Takashi Miyachi, Asia & Oceania Treasury Department

Malaysian Ringgit – February 2017

Expected Ranges	**Against the US$:**	**MYR 4.40–4.50**
	Against the yen:	**JPY 25.50–26.50**

1. Review of the Previous Month

The U.S. dollar/Malaysian ringgit exchange market opened trading at the lower-MYR 4.48 level. Subsequently, the Malaysian ringgit weakened following the trend that had continued from the end of the previous year, and the U.S. dollar/Malaysian ringgit exchange rate reached MYR 4.4940 on January 3 and MYR 4.5000 on January 4, renewing the lowest rate for the Malaysian ringgit in approximately 19 years. Thereafter, the Chinese yuan appreciated, while the crude oil price rallied and the U.S. long-term interest rates depreciated. As a result, market participants were encouraged to sell the U.S. dollar and buy the Malaysian ringgit, leading the U.S. dollar/Malaysian ringgit exchange rate to rally to the lower-MYR 4.47 level.

On January 11, Malaysian ringgit-buying dominated the market. This was due to the fact that a press conference by new U.S. President Donald Trump was approaching, attracting substantial attention in the market and encouraging market participants to adjust positions, while the November industrial production of Malaysia turned out to be stronger than expected. On January 12, new U.S. President Donald Trump held a press conference, but he did not mention investment in infrastructure or a large-scale tax cut, which disappointed market participants, encouraging them to sell the U.S. dollar. As a result, the Malaysian ringgit was bought, and the U.S. dollar/Malaysian ringgit exchange rate reached MYR 4.4570.

In the middle of the month, the U.S. dollar/Malaysian ringgit exchange rate remained within a narrow range at the MYR 4.46 level for a while. On January 18, however, new U.S. President Donald Trump made a warning regarding the appreciation of the U.S. dollar, which led the U.S. dollar/Malaysian ringgit exchange rate to reach MYR 4.4400. However, FRB Chair Janet Yellen made a hawkish remark thereafter, fueling expectation for an interest rate hike in the U.S. As a result, market participants started to buy back the U.S. dollar again, and the Malaysian ringgit weakened against the U.S. dollar to the MYR 4.45 level. On January 20 local time, a wait-and-see attitude spread in the market as the inauguration ceremony of new U.S. President Donald Trump was approaching. The U.S. dollar/Malaysian ringgit pair continued trading at the upper-MYR 4.44 level.

In the second half of the month, market participants sold the U.S. dollar against the Malaysian ringgit to adjust positions after the inauguration ceremony of new U.S. President. As a result, the U.S. dollar/Malaysian ringgit exchange rate reached the upper-MYR 4.43 level. Toward the middle of the week, the Malaysian ringgit appreciated against the U.S. dollar to the lower-MYR 4.43 level because of the remarks by incoming U.S. Secretary of Treasury Steven Mnuchin that gave warning regarding the appreciation of the U.S. dollar, along with the appreciation of the crude oil price. Consequently, the U.S dollar/Malaysian ringgit exchange rate reached the lower-MYR 4.42 level on January 26 for the first time in about a month.

In the last week of January, the Malaysian market was closed on January 30 for the Chinese New Year. On January 31, there was no significant movement in the market. In the end, the U.S. dollar/Malaysian ringgit exchange market closed at the upper-MYR 4.42 level.

2. Outlook for This Month

The economic indices released last month turned out to be generally strong, such as the November industrial production, as well as the November trade balance. However, these are all indices that are highly variable, and therefore it is difficult to say that business confidence in Malaysia has been dramatically improved. It should rather be pointed out that the latest manufacturing PMI remained below 50, which suggests that the economic conditions do not give positive influence to the Malaysian ringgit exchange market.

With regard to external factors, the appreciation observed in the foreign exchange market in the U.S. before and after the inauguration of new U.S. President Donald Trump has started to slowly lose its momentum. While the stock and bond markets remain strong, the foreign exchange market seems to be affected significantly by the remarks made in the U.S. to warn about the appreciation of the U.S. dollar. Until now, the Malaysian ringgit had been particularly weak, even among Asian currencies. It should be noted therefore that if market participants start to unwind U.S. dollar long positions, the Malaysian ringgit may start to rally.

However, there are still persistent expectations in the market for measures to improve business confidence in the U.S. such as investment in infrastructure as well as tax cuts. Under such a condition, market participants are likely to be encouraged to buy the U.S. dollar with expectations for interest rate hikes in the U.S., while investors are unlikely to stop selling Malaysian government bonds given the interest rate differentials and the trends in the foreign exchange market. Therefore, although this will depend on other factors, it is difficult to expect the Malaysian ringgit to appreciate against the U.S. dollar in a one-sided manner.

One the other hand, the new regulations introduced by the central bank of Malaysia (BNM) may gradually encourage market participants to convert foreign currencies into the Malaysian ringgit. In particular, the transitional measures on foreign currency settlement in domestic commercial transactions (goods and services) are to end at the end of March this year. This is likely to increase demand to buy the Malaysian ringgit among domestic companies, supporting the Malaysian ringgit exchange rate.

Given the above factors, the one-sided Malaysian ringgit-selling that had been observed after the U.S. presidential election last year is expected to slow down in the times ahead. However, it is not likely for the Malaysian ringgit to rally, as business confidence lacks strength while market participants are selling Malaysian government bonds. The Malaysian ringgit is therefore forecast to remain somewhat weak in this month.

Ryosuke Kawai, Asia & Oceania Treasury Department

Indonesian Rupiah – February 2017

Expected Ranges	**Against the US$:**	**IDR 13,200–13,800**
	Against 100 rupiah:	**JPY 0.80–0.90**
	Against the yen:	**IDR 111.87–124.00**

1. Review of the Previous Month

In January, the U.S. dollar/Indonesian rupiah exchange rate remained stable, fluctuating within a narrow range between IDR 13,260 and IDR 13,490, thanks to capital inflow from abroad.

In the first half of the month, the U.S. dollar/Indonesian rupiah exchange market started trading at around IDR 13,460. Capital inflow from abroad started early in the new year. Based on this trend of Indonesian rupiah-buying, the U.S. dollar/Indonesian rupiah exchange rate continued depreciating and temporarily reached IDR 13,260 on January 12. In the first part of January, the December Consumer Price Index (CPI) of Indonesia was announced, and the result turned out to be almost as had been expected. Thus, the impact on the exchange market was limited. On January 9, the December amount of foreign currency reserves was announced with an increase of USD 4.9 billion from the previous month, which supported capital inflow from overseas investors.

Thereafter, the U.S. dollar/Indonesian rupiah exchange rate occasionally approached IDR 13,410, due to a sense of uncertainty regarding the inauguration ceremony of new U.S. President Donald Trump, scheduled for January 20. However, the U.S. dollar interest rates depreciated after the inauguration ceremony, as President Trump only made patriotic remarks to an expected degree without discussing details about his economic policy measures. As a result, U.S. dollar-selling dominated the market. Following this trend, the U.S. dollar/Indonesian rupiah exchange rate also rallied to approach INR 13,310.

On the other hand, the December trade balance of Indonesia was released on January 16 with figures that were almost as anticipated. Thus, the impact on the exchange market was limited.

Toward the end of the month, there was demand to buy the U.S. dollar by importing companies. As of 09:00 Jakarta time on January 27, the U.S. dollar/Indonesian rupiah pair is currently trading at around IDR 13,350.

It should be also noted that the central bank of Indonesia decided to maintain its policy interest rate at the existing level for the third consecutive time at its regular meeting held on the day before the inauguration ceremony of new U.S. President Donald Trump

2. Outlook for This Month:

The U.S. dollar/Indonesian rupiah exchange rate is most likely to remain within a narrow range in February, as was the case in January, as there had been no major trend in the exchange market.

Key events for February include the Jakarta gubernatorial election scheduled for February 15. The important question is whether the current governor of Jakarta, Basuki Tjahaja Purnama (also known as "Ahok"), will be re-elected.

Even though the impact of this election on the Indonesian rupiah exchange rate is likely to be limited, Basuki Tjahaja Purnama made an ironic comment about a part of the Koran in his speech in September, which provoked several demonstrations in November and after, with some riots. In Indonesian society, there has been a growing atmosphere to strictly follow the doctrines of the Islamic religion. Therefore, the worst scenario would be the worsening of the security situation in a country with conservative Islamic movements in the case of his re-election, which may fuel risk-averse sentiment in the market.

It should also be mentioned that the October–December quarter GDP of Indonesia is scheduled to be released soon. As domestic sales of automobiles in Indonesia have been recovering, there should not be any excessive concerns.

Furthermore, other economic indices in Indonesia have also been relatively strong, including the stable CPI and the December foreign currency reserves that rallied after the decline observed in November. The Indonesian rupiah is therefore not likely to depreciate significantly in this month.

Yoichi Hinoue, Manila Branch

Philippine Peso – February 2017

Expected Ranges	**Against the US$:**	**PHP 49.60–50.50**
	Against the yen:	**JPY 2.25–2.33**

1. Review of the Previous Month

The U.S. dollar/Philippine peso exchange market opened trading at PHP 49.78.

In the minutes of the FOMC meeting in the U.S., the outlook for the U.S. interest rates turned out to be not as hawkish as was expected by market participants. As a result, U.S. dollar-selling dominated the market.

Market participants were, however, aware of the intentions of the Philippine monetary authorities, which desired to keep the Philippine peso from depreciating above PHP 50 against the U.S. dollar.

Other Asian countries were also keen on keeping their currencies from depreciating excessively. Market participants therefore continued unwinding their Philippine peso short positions that they had purchased after September last year. Philippine peso-buying therefore increased.

Subsequently, the Chinese yuan appreciated sharply, as the People's Bank of China (PBOC) took a measure against the depreciation of the Chinese yuan. Following this trend, the overall Asian currencies also appreciated. As a result, the Philippine peso appreciated against the U.S. dollar to temporarily reach PHP 49.36.

After the announcement of the December employment of statistics of the U.S., the U.S. dollar was bought against other major currencies. Following this trend, market participants also bought the U.S. dollar against the Philippine peso, although this trend did not last long. While concerns were growing about the possibility of a "hard Brexit," market participants bought the Japanese yen to avoid risks, which strengthened the overall Asian currencies, including the Philippine peso, which is worth noting.

In the middle of the month, U.S. dollar-buying became dominant because of a series of remarks made by FRB Chair Janet Yellen, such as that the U.S. economy is close to full employment, that the inflation rate has been rising to reach the target rate of 2%, and that several interest rate hikes per year are planned until

2019. This trend was also supported by a remark made by Philippine President Rodrigo Duterte such that strict measures would be taken in order to fight drug problems. As a result, the U.S. dollar/Philippine peso exchange rate momentarily reached PHP 50, although the exchange rate did not rise further due to the market intervention by the Philippine monetary authorities.

Toward the end of the month, there were few influential factors in the market. On January 26, the October–December quarter GDP growth rate of the Philippines was announced, attracting substantial attention.

While a research organization had estimated the year-on-year growth rate to be +6.6%, there were some market participants in the onshore market who expected it to be +6.9%. As a result, the U.S. dollar/Philippine peso exchange rate fell to temporarily reach PHP 49.65.

In the end, the growth rate turned out to be +6.6% year-on-year (as was anticipated by the research organization). On the other hand, the July–September quarter growth rate was revised downward.

As there was no expectation in the market, market participants sold the Philippine peso after the announcement of the GDP growth rate. The U.S. dollar/Philippine peso has been trading at the PHP 49.80 level (as of 13:00 on January 30).

2. Outlook for This Month

The Philippines Stock Exchange Index (PSEI) has been robust above the 7,000-point mark since the beginning of the year, as market participants saw this to be a good moment to buy Philippine stocks, while stock prices were appreciating globally.

However, with regard to stock transactions, overseas investors were net buyers for the first two weeks, after which buying and selling have been equalized.

Since the end of last year, there has been a remarkable trend of unwinding excessive liquidity positions, and thus it is unlikely for the capital outflow from the Philippines to slow down. Also, the U.S. dollar/Philippine peso exchange rate is forecast to approach the PHP 50 level, reacting sensitively to actions taken by the central bank of the Philippines.

The key question for 2017 would be whether the Philippines would be able to keep its status as "a good student in Asia."

Personal consumption accounts for more than 70% of the GDP of the Philippines. However, this is also causing an increase in imports, and the trade deficit has increased significantly.

With regard to exports of electric machines, which account for slightly more than 40% of exports from the Philippines, demand for semiconductors has been growing, thanks to the expansion of IoT, which has been a positive factor.

Currently, the constant trade deficit of the Philippines has been paid by remittances by overseas Filipino workers (OFWs). This situation may change with the Trump administration in the U.S. Furthermore, there are risks of a further increase in the trade deficit due to the appreciation of the crude oil price, as well as the depreciation of the Philippine peso.

There are some concerns, as, if the inflation rate appreciates, the policy interest rate may be raised, which may affect personal consumption in a negative manner. Also, on January 5, the December Consumer Price Index (CPI) of the Philippines was announced, and the result turned out to be +2.6% year-on-year. Market participants should be observing how this will change in the times ahead.

In terms of foreign currency reserves and foreign debts, it is unlikely for market participants to actively sell Philippine pesos due to capital outflow from Asia. However, it is difficult to change the trend of U.S. dollar-buying.

Junya Tagawa, Asia & Oceania Treasury Department

India Rupee – February 2017

Expected Ranges	**Against the US$:**	**INR 67.00–69.50**
	Against the yen:	**JPY 1.60–1.75**

1. Review of the Previous Month

In January, the U.S. dollar/India rupee exchange rate fluctuated without moving into any direction.

The U.S. dollar/India rupee exchange market opened trading at the INR 67.98 level. At the beginning of the month, the U.S. interest rates appreciated, and following this trend, market participants bought the U.S. dollar. As a result, the U.S. dollar/India rupee exchange rate appreciated. However, the Chinese yuan appreciated against the U.S. dollar, strengthening the overall Asian currencies. The U.S. dollar/India rupee exchange rate also fell to the INR 67.79 level, the monthly low in January. However, the crude oil price depreciated sharply thereafter, while concerns over a "hard Brexit" persisted in the market, which fueled risk-averse sentiment. Some market participants also bought the U.S. dollar with expectations for a press conference given by new U.S. President Donald Trump. As a result, the U.S. dollar/India rupee exchange rate rose to the INR 68.35 level on January 11, the monthly high in January.

In the meantime, a series of economic indices were released in India, and the figures deteriorated significantly, including the PMI and consumer prices, possibly due to the discontinuation of the use of high-denomination bank notes. However, the impact on the foreign exchange market was limited.

At the press conference of new U.S. President Donald Trump, which attracted significant expectation, there was no detail revealed regarding his new policy measures. On the contrary, he made remarks to fuel concerns over trade-related issues. Out of disappointment caused by this, market participants sold the U.S. dollar.

In the second half of the month, U.S. economic indices were released with strong figures, while concerns persisted regarding a "hard Brexit." However, the U.S. dollar/India rupee exchange rate continued fluctuating within a narrow range, waiting for the inauguration ceremony of new U.S. President Donald Trump. Furthermore, the new U.S. President made a remark that was meant to give warning about the appreciation of the U.S. dollar, which slowed down the appreciation of said dollar. As a result, the U.S. dollar/India rupee exchange rate continued hovering around at the INR 68.10 level. As of January 26, the

U.S. dollar/India rupee exchange rate has been sitting at the INR 68.07 level.

The India rupee/Japanese yen exchange rate depreciated in January.

The India rupee/Japanese yen exchange market opened trading at the JPY 1.72 level. At the beginning of the month, the exchange rate approached JPY 1.73 to the India rupee, the monthly high in January. However, there were some risk-averse factors discussed above, which encouraged market participants to buy Japanese yen. The India rupee/Japanese yen exchange rate started to depreciate, albeit gradually. When the U.S. dollar/Japanese yen exchange rate reached the mid-JPY 112 level, the India rupee/Japanese yen exchange rate fell to the JPY 1.65 level, the monthly low in January. As of January 26, the India rupee/Japanese yen pair has been trading at the JPY 1.67 level.

2. Outlook for This Month

The U.S. dollar/India rupee exchange rate is forecast to be robust in February.

With regard to economic indices in India, the PMI was below the 50 mark both for the manufacturing and service industries, as was discussed in the event section. In particular, the PMI for the service industry declined sharply to an all-time low. Furthermore, the Consumer Price Index recorded its lowest growth rate since January 2014. This is also the level before the series of interest rate cuts by the Reserve Bank of India (RBI). With regard to trade statistics, imports saw a decline, demonstrating the weakness of domestic demand in India. On the other hand, many market participants believe that the economic slowdown caused by the discontinuation of the use of high-denomination bank notes would only be a temporary one. Therefore, the influence of the economic indices on the market has been minimal. In February, economic indices for January are to be released. However, even if the results turn out to be weak, the India rupee exchange market is not likely to react dramatically. Furthermore, a monetary policy meeting is scheduled at the RBI for February 8. Many market participants have already forecast an interest rate cut by 25 basis points. Thus, unless the interest rate cut turns out to be larger than 25 basis points, the India rupee exchange market is unlikely to fluctuate violently.

The market has still been influenced by expectations for the economic measures to be taken under new U.S. President Donald Trump. The U.S. dollar is therefore most likely to remain robust in February. However, in January, President Trump and the next U.S. Secretary of Treasury referred to the negative impact of the appreciation of the U.S. dollar for the first time. Even though stock prices and interest rates may remain high in the times ahead, the appreciation of the U.S. dollar in the foreign exchange market may be slightly different from what it has been so far. As was mentioned above, the U.S. dollar is expected to remain strong in February. It should however be pointed out that the U.S. dollar is also unlikely to continue appreciating to renew its high.

Risk factors remain in the issues related to the Brexit as well as the trend in the Chinese yuan exchange market.