Mizuho Bank

One MIZUHO

Mizuho Dealer’s Eye

March 2017

Mizuho Bank, Ltd.

Forex Department

Masaharu Yano, Forex Sales, Forex Department

U.S. Dollar – March 2017

Expected Ranges Against the yen: JPY108.00–115.00

1. Review of the Previous Month

In February the dollar/yen pair moved with a lack of direction in a general range between mid-111 yen and 115 yen.

It traded with a heavy topside at the start of the month. At the end of January, Donald Trump had signed a presidential decree aimed at curbing immigration. With Trump also accusing China and Japan of guiding their currencies lower, the yen was bought and the dollar/yen pair kicked off February trading at 112.80 yen. However, it then bounced back to the upper-113 yen mark on February 1 on the bullish results of the January ADP National Employment Report and Manufacturing ISM Report on Business. As expected, the FOMC kept policy rates fixed at its closely-watched meeting. As anticipation over further rate hikes eased off, the pair was sold back to the lower-113 yen level. This selling continued on February 2 and the pair continued tumbling to hit the mid-112 yen mark again on bearish stock movements. UK interest rates then fell on the dovish contents of the Bank of England (BOE) Monetary Policy Committee (MPC) meeting. With U.S. interest rates also sliding, the dollar/yen pair fell further to hit 112.05 yen. The pair was then sold after the release of the U.S. employment data for January. This came as risk aversion flared up in Europe and elsewhere on concerns about the rise of the far right in the run up to the French presidential elections. As a result, the pair hit a 2017 low of 111.59 yen on February 7.

The pair then rallied toward mid-February. It saw some on-the-dip buying at 111 yen and it subsequently rebounded to the mid-112 yen mark as short-term investors activated stop losses. U.S. stocks renewed record highs on February 9 after comments by President Trump roused expectations for large-scale tax cuts, with the dollar/yen pair bought back to 113 yen. The pair topped 114 yen after the U.S./Japan heads of state meeting over February 10–11 passed smoothly, with the pair also boosted by the hawkish contents of Janet Yellen's testimony to Congress on February 14, with the FRB Chair stating that "waiting too long to remove accommodation would be unwise." The U.S. then released some robust economic indicators on February 15, including the February NY FRB Manufacturing Index and the January Consumer Price Index (CPI). As a result, the pair's topside was tested and it rose to a monthly high of 114.95 yen.

The pair moved with a heavy topside again toward the end of the month. It saw some selling for profit taking at the upper-114 yen level. It also moved with a heavy topside against the cross yen, etc. on the weak results of the U.S. Industrial Production Index for January and bearish European stock prices. With U.S. long-term interest rates also falling, the pair dropped to the mid-112 yen mark. It continued to float around the lower-113 yen mark thereafter. However, U.S. interest rates then dipped on: uncertainty about a March rate hike; sluggish U.S. Housing Starts data for January (released February 24); and doubts about the Trump administration's policy management. As a result, the pair moved with a heavy topside to close the month at 112.78 yen.

2. Outlook for This Month:

In March the dollar/yen pair is expected to move erratically on President Trump's policy management and U.S. monetary policy.

Around three and a half months have passed since the momentous U.S. presidential election. In the end, Donald Trump beat all expectations to score a historic victory, with the dollar/yen pair subsequently rising on anticipation about Trump's policies, particularly his fiscal policies. With the passing of time, though, the pair's level has steadily edged lower. Uncertainty is now growing about the direction of fiscal mobilization and tax reforms (including the border-adjusted tax), with Treasury Secretary Steven Mnuchin stating that "we need some more time to get tax reform done," for instance. This is one reason why the dollar/yen pair is moving with a heavy topside. The scale of the eventual fiscal mobilization and the speed at which it is implemented will need to meet (or beat) market expectations for this uncertainty to be wiped away. Treasury Secretary Mnuchin has said the government will not cut entitlements like social security or Medicare (a healthcare system for the elderly) but will instead focus on promoting long-term economic growth through tax cuts. Trump's budget message is penciled in for mid-March. If the contents of the message invite market disappointment, this could push the dollar/yen pair lower.

The next thing to focus on is U.S. monetary policy. In her speech to Congress over February 14–15, FRB Chair Janet Yellen said "waiting too long to remove accommodation would be unwise." This roused expectations for an early rate hike, possibly in March. However, the minutes to the FOMC meeting over January 31–February 1 (released February 22) suggest that vote-wielding members are in no rush to lift rates again. Market expectations for an early rate hike have swollen quite high. The current movements of short-term interest rates put the odds of a March rate hike at around 30% for the federal funds rate and around 50% for the overnight index swap (OIS), for example. The FRB will be slipping into silent mode after Yellen gives a speech on March 3, so from thereon until the next FOMC meeting over March 14–15, the pair's movements will probably be shaped by the contents of U.S. economic indicators (including the employment data on March 10) and Trump's budget message.

The dollar/yen pair's movements this month will be swayed by the budget message (scheduled for mid-March) and other factors related to the Trump administration's fiscal policies. As outlined above, if these end up disappointing market expectations, dollar selling will probably accelerate. Furthermore, if these expectations fade, market participants may grow more doubtful about the possibility of large-scale rate cuts by the FRB. Attention should also be paid to stock market adjustments. With the Trump administration's disapproval ratings already topping its approval ratings, policy movements are likely to be a major theme this month too. Investors should be on guard against the risk of a downward correction.

Dealers' Market Forecast

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

Bullish on the dollar (5 bulls: 110.00–118.50, Core: 110.00–117.00)

Kato	110.00 – 118.50	The FRB is prepared to lift rates in March if possible. The key will lie with President Trump. If his tax cuts and fiscal mobilization are not as impressive as expected, the dollar will be sold, but if they exceed expectations, the dollar/yen pair could try for 120 yen.
Sato	110.00 – 117.00	Expectations for an early rate hike are likely to flare up on bullish U.S. economic indicators. Even if anticipation regarding Trump's policies recedes for a time, the dollar/yen pair's room on the downside will be capped. On the whole, the pair will probably move firmly in advance of the release of the budget message, set for some time this month.
Nishijima	110.00 – 117.00	The momentum for a March FRB rate hike has risen sharply and the dollar/yen pair is moving firmly. There is a mix of hope and fear when it comes to the Trump administration and it is hard to gauge a clear sense of direction, so the pair look set to trade in a range on the whole, but it could move with an upward bias depending on the movements of the FOMC. U.S. stocks are moving at highs but if they drop back this could lead to risk aversion, so caution will be needed.
Nishitani	110.00 – 116.00	The U.S. economy remains firm and several high-ranking FRB officials have made hawkish comments, so the FOMC might implement a rate hike when it meets this month. Though market participants should continue to pay attention to headlines related to the Trump administration's fiscal policies, the dollar/yen pair is expected to move firmly on expectations for a rate hike.
Tsuruta	110.00 – 117.00	The so-called Trump Rally has been supported by the economic policies espoused by the Trump administration. This month's budget message could flesh out these policies, so the markets will be watching closely. The dollar/yen pair will basically trade in a range, but the pair is expected to grow firmer as the details of Trump's policies grow clearer.

Bearish on the dollar (7 bears: 107.00–116.00, Core: 108.00–115.00)

Fujisaki	107.00 – 115.00	The FRB could push back the timing of its next rate hike, while the Trump administration's fiscal mobilization could require a longer period of time to implement, so the markets will probably see some position adjustment at the start of the month. Japanese firms will also be repatriating funds and building up hedges on the approach of the settlement season, so the yen will probably face appreciatory pressure.
Yamashita	107.00 – 114.00	The negative impact of the dollar's strength since last November will start to manifest itself in economic indicators from here on, while the Trump administration also likely to express clear concerns about dollar bullishness as it seeks to iron out the contradictions in its policies. The FOMC would also be unwise to implement a rate hike based on expectations towards Trumponomics, so it will probably hold off from such a move this month. The dollar is expected to move bearishly.
Yano	108.00 – 115.00	Depending on the contents of the Trump administration's fiscal policies, particularly the budget message, hopes regarding the administration's policy administration could wear off and this could also lead to a decline in expectations for early/large-scale rate hikes by the FRB. U.S. stocks could also face some adjustment. The dollar/yen pair could slide on a sense of disappointment once various factors are out of the way, so caution will be needed.
Takada	107.00 – 115.00	Expectations for a U.S. rate hike are rising on comments by FRB officials. This is acting to bolster the dollar/yen pair. However, the dollar is unlikely to be bought further until the markets gain a clearer picture of the feasibility of the policies espoused by President Trump. If doubts emerge about this feasibility, U.S. long-term interest rates are likely to fall and the currency pair will have its downside tested.
Shimoyama	108.00 – 116.00	Risk sentiments are waning and stocks are moving bearishly on uncertainty about the feasibility of the Trump administration's policies. Japanese firms also look set to carry out B/S hedging or yen buying for fund repatriation. All this will cap the dollar/yen pair's topside. However, the FOMC could implement a rate hike this month. If it does so, the pair will soar for a time.

Moriya	108.00 – 115.00	There is deep-rooted uncertainty about Trumponomics and policy details remain vague. Under these circumstances, the dollar could face selling pressure as expectations recede. There is an undeniable sense that U.S. stock markets are overheating, so the dollar/yen pair will probably be pulled low during phases of adjustment.
Okuma	108.00 – 115.00	The Trump administration has yet to release its tax reform plan and there remain doubts about its fiscal policies. As a result, market hopes for the new government are gradually dropping off. Furthermore, the FRB will probably want to monitor Trump's policy management, so it will be in no rush to hike rates. As such, market participants will find it hard to buy the dollar, with the dollar/yen pair set to move with a heavy topside.

Tomoko Yamashita, Forex Sales, Forex Department

Euro – March 2017

Expected Ranges **Against the US$: US$1.0100–1.0700**
Against the yen: JPY115.00–120.00

1. Review of the Previous Month

The euro/dollar pair traded with a heavy topside from the start of February.

It moved firmly at the upper-$1.07 mark at the beginning of the month on an improved (final) eurozone Manufacturing PMI for January, though it then fell to the mid-$1.07 level after the dollar was bought on the bullish results of several U.S. economic indicators. It rose to the lower-$1.08 mark on February 2 as U.S. interest rates dipped, but it then fell to the upper-$1.07 level as U.S. interest rates bounced back. It climbed to the lower-$1.08 level for a time during Sydney trading time on February 6, but it fell to the lower-$1.07 level as risk-evasive movements increased on growing concerns that the far right might win the French presidential election, scheduled for April/May.

The pair then moved bearishly at the upper-$1.06 mark. However, the greenback was then sold on falling U.S. long-term interest rates. With Bundesbank Governor Jens Weidmann also stating that the ECB's stimulus should be ended if inflation rose, the pair climbed to the lower-$1.07 range. With concerns about the European political situation and the Greek debt crisis rising toward February 8, the pair hit the lower-$1.06 level, but it soon bounced back to the lower-$1.07 mark on falling U.S. long-term interest rates. The dollar was bought and the pair fell to the mid-$1.06 level on February 9 on rising U.S. long-term interest rates and comments by President Trump about tax cuts. The pair moved bullishly at the upper-$1.06 level at the start of the week, but it then dropped to the upper-$1.05 level as the dollar was bought on rising U.S. long-term interest rates.

The pair continued to move with a heavy topside on February 14 on the bearish results of the German ZEW Indicator of Economic Sentiment for February. During this time, the greenback was bought on hawkish comments by FRB Chair Janet Yellen, with the pair sliding temporarily to the upper-$1.05 mark as a result. The dollar was bought on February 15 on the bullish results of several U.S. economic indicators, including the NY FRB Manufacturing Index for February and the CPI data for January, with the pair falling to the lower-$1.05 level for a time. However, it then recovered to the lower-$1.06 mark on falling U.S. long-term interest rates.

Amid dollar selling on February 16, the pair rose to the upper-$1.06 level after the euro was bought when the minutes to the January ECB Governing Council meeting revealed that the ECB was prepared to alter the composition of the government bonds it purchases. The pair moved with a heavy topside at the lower-$1.06 mark at the start of the next week on February 20 on news that: the opposition party in Germany had scored a higher approval rating than the ruling party for the first time in ten years; and Marine Le Pen, leader of the far-right National Front, had risen in the opinion polls in the run up to the

French presidential election. With the markets focusing on political risk in relation to the French presidential election, the pair dropped to the lower-\$1.05 mark toward February 21.

The dollar was bought and the pair hit the upper-\$1.04 level on February 22 on bullish U.S. economic indicators, but it then bounced back to the upper-\$1.05 level after Francois Bayrou announced he would not be running for French president and would instead be supporting ex-finance minister Emmanuel Macron. The greenback was sold on February 23 as U.S. long-term interest rates fell, with the pair rising to the lower-\$1.06 mark for a time, but it dropped back to the \$1.05 range as the euro was sold on political risk. It moved between the upper-\$1.05 mark and the lower-\$1.06 level in the final week too.

2. Outlook for This Month:

The euro/dollar pair will continue trading with a heavy topside in March.

For now, the markets will probably focus on geopolitical/political risk and ECB tapering. With the French presidential election looming next month, Marine Le Pen, leader of the far-right National Front, is rising in the opinion polls, but the structure of French presidential elections suggests Le Pen is unlikely to win. If no candidate obtains a majority of votes in the first round of voting on April 23, the top two candidates will face a final ballot on May 7. Recent polls suggest that even if Le Pen wins the first round, she is unlikely to get a majority of votes and will be followed closely by the centrist independent candidate Emmanuel Macron and former prime minister Francois Fillon, so a run-off will be unavoidable. Last week the centrist Francois Bayrou announced he would not be running and he threw his support behind Macron. Though Bayrou had an approval rating of less than 10%, his move served to unite the centrists. From here on, a sense of panic about anti-EU sentiments will probably see other candidates throwing their support behind Macron and his big-tent centrist position. On the other hand, Le Pen will find it hard to join forces with others. She will probably try to boost her popularity through her 'France First' stance, but given the unpopularity of President Trump and his 'America First' position, Le Pen will find it hard to gain more votes this way. However, over half the voters are still undecided, so after experiencing Brexit and the U.S. presidential election, the markets will not be able to discount the idea of a Le Pen victory.

Holland is also scheduled to hold a general election on March 15. Recent opinion polls suggest no party will win a majority, so there will probably be a coalition government. Nationalism is rising across the world, and though a 'Holland First' sentiment has yet to take hold, there will be lingering concerns about a government composed of numerous parties. Regional and political risk is rising elsewhere in Europe too. The Greek debt crisis has flared up again and former prime minister Matteo Renzi has resigned as head of the Democratic Party in Italy and the party split up, for instance, while Catalonia is pushing for independence from Spain once again. Perhaps this explains why signs of fund outflows from the eurozone were manifested in statistics released by eurozone investment funds last month.

Turning to ECB tapering, meanwhile, and it would not be surprising if this became an issue for Germany, given that its economy is showing signs of overheating as its trade and fiscal surplus swells on the weak euro. This does not apply to the periphery nations, though, and in fact they still need support.

In a speech to the European Parliament last month, ECB President Mario Draghi said there were many reasons why the ECB would have to be very cautious before exiting from its long-term policy of monetary easing and low interest rates. He also stated that "support from our monetary policy measures is still needed." This suggests Draghi is keen to continue easing during his tenure, so there appear to be high hurdles in the way of any tapering in the near term. Under these circumstances, geopolitical/political risk is likely to outweigh ECB tapering as a factor, so there is no need for market participants to risk buying the euro.

Dealers' Market Forecast

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

Bullish on the euro (3 bulls: 1.0300–1.1000, Core: 1.0400–1.1000)

Fujisaki	1.0400 – 1.1000	With a general election looming in Holland in March and a presidential election in France in April/May, market participants are focusing on political risk in the eurozone, though they have already begun building up short positions. The euro’s lower price will be supported by the eurozone’s huge current account surplus and it will edge higher as the French presidential election inclines in a more optimistic direction.
Takada	1.0300 – 1.1000	Market participants will find it hard to buy the euro given the political events lined up in Holland and France, for example. However, the markets had already priced in these events to a large extent by February, so it seems more likely that the euro/dollar pair will be bought back on uncertainty about the direction of the Trump administration.
Sato	1.0400 – 1.0900	The markets have largely factored in concerns about the Dutch general election on March 15 and the French presidential election. Voting in the latter election will start in April and it is unlikely to become a factor in March. Furthermore, uncertainty will be alleviated after the Dutch general election, so the euro/dollar pair is expected to move firmly as investors unwind their euro short positions.

Bearish on the euro (9 bears: 0.9900–1.0800, Core: 1.0100–1.0700)

Kato	0.9900 – 1.0700	The currency markets will be swayed by political risk this year. Speculative positions have inclined heavily in the direction of euro shorts and some substantial short covering is likely once events are out of the way. Nonetheless, political risk is unlikely to be wiped away and market participants will continue to test the euro/dollar pair’s downside.
Yamashita	1.0100 – 1.0700	After the shock results of the Brexit vote and the U.S. presidential election, the markets cannot rule out the possibility of a far-right Le Pen victory in the French presidential election. Market participants will continue to hedge against euro bearishness in the run up to the French election. With seasonal factors also playing a role, the euro will probably fall against the yen.
Yano	1.0000 – 1.0700	Though eurozone economic indicators are improving, political risk is rising in advance of the French presidential election, so these bullish indicators will not invite much euro buying. As the markets continue to focus on political risk, the euro’s topside will be held down.
Nishijima	1.0100 – 1.0800	Europe is fraught with political risk. This includes the French presidential election and the so-called ‘Le Pen risk,’ for instance, as well as a revival of the Greek debt crisis and speculation that the Italian general election might be brought forward. Under these circumstances, the euro is unlikely to face appreciatory pressure unless all these factors head in a positive direction. In March the euro/dollar pair will be swayed by the Dutch general election.
Shimoyama	1.0100 – 1.0700	The April/May French presidential election is finally looming into view. Various conjectures are flying around about the potential for a Le Pen victory. With the euro also faced with negative interest rates, speculators will find it a difficult currency to buy. Market participants will probably build up euro shorts this month.
Nishitani	1.0200 – 1.0700	Europe faces political risk related to the Dutch general election and the French presidential election, for instance, so the euro’s topside will be weighed down. Furthermore, the FRB could implement a rate hike this month, so the euro will trend lower on several occasions.
Moriya	1.0200 – 1.0800	As the markets focus on rising political risk in Europe in relation to the French presidential election and so on, market participants will continue to find it hard to actively buy the euro. Furthermore, regardless of whether or not the FRB implements a rate hike this month, there is a clear difference in the monetary policies of the ECB and FRB. This will probably act to hold down the euro/dollar pair’s topside.
Tsuruta	1.0200 – 1.0750	Given the ongoing focus on European political risk, market participants will find it hard to actively buy the euro. As the French presidential election looms in April/May, it will be difficult to discern a sense of direction for the euro/dollar pair. With the dollar also moving firmly, the pair will continue to move with a heavy topside this month.
Okuma	1.0100 – 1.0700	Europe faces political uncertainty in relation to the Dutch general election in March and the French presidential election in April/May. With the issue of a further bailout for Greece also looming, risk aversion is likely to flare up. The euro/dollar pair will probably move bearishly until the political situation across Europe calms down.

Anna Hibino, Europe Treasury Department

British Pound – March 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 February at the upper-$1.25 mark. The markets then focused on the possibility of post-Brexit trade deals after Liam Fox, UK Secretary of State for International Trade, commented that several countries had already indicated their willingness to use FTAs. With Prime Minister Theresa May also announcing the release of a Brexit white paper, the pair rose to the upper-$1.26 mark. Of February 3 the Bank of England (BoE) reached a unanimous decision to keep policy rates and the asset purchasing program unchanged. Though it upgraded its closely-watched growth forecasts for both 2017 and 2018, it kept its inflation forecasts for these years more-or-less unchanged while lowering the non-accelerating inflation rate of unemployment (NAIRU; a fixed unemployment rate not related to inflation) from 5.0% to 4.5%. The currency pair plummeted to the lower-$1.25 level in the wake of this announcement. Sterling continued to move with a heavy topside for several days thereafter. With dollar buying also intensifying entering European trading time on February 7, the pair dropped below its 50-day moving average to temporarily hit the mid-$1.23 mark. The markets then switched to dollar selling, though, so the pair bounced back to around $1.25 again.

It then floated around $1.25 for about a week. The UK consumer price index (CPI) for January was released on February 14. At +1.8% year-on-year, the indicator hit its highest level for two years, but this was still below the market consensus of +1.9% y-o-y, so disgruntled market participants pushed the pair down to the mid-$1.24 range. On February 15, the UK released some employment-related indicators for December. Wage growth (including bonuses) was down on market expectations, so the pair was sold to the upper-$1.23 level. However, the greenback was then sold across the board on the weak results of the U.S. industrial production data for January, released during NY trading time. As a result, the pair rebounded to the mid-$1.24 mark. It then moved in a range from around $1.24 to around $1.25 for a week thereafter. U.S. Treasury Secretary Steven Mnuchin then made some comments aimed at curbing dollar bullishness during the close of European trading on February 23. With Mnuchin also stepping back from labelling China a currency manipulator, dollar selling accelerated and the pound/dollar pair gained to the mid-$1.25 mark.

2. Outlook for This Month:

Market participants are shifting their focus more to political risk than macroeconomic trends. Outlined below is this month's schedule when it comes to the bill for triggering Article 50 and other UK/EU-related events.

March 7: The Third Reading of the Brexit bill will commence in the House of Lords. If there are no amendments at this stage, the bill will automatically become law. If some pro-EU members do amend the bill, it will pass back to the House of Commons and the 'ping pong' phase will continue.

March 8: UK Chancellor Philip Hammond will publish his budget. This will be a good opportunity for the government to announce any new Brexit developments, but the budget is not expected to differ much from the Autumn Statement (made on November 23, 2016), so it is unlikely to become a major theme for the markets.

March 10: The European Council will be meeting in Brussels. Theresa May is scheduled to join, but judging from comments made by other EU leaders, it seems unlikely May will use the occasion to officially trigger Article 50.

March 14: The House of Commons is scheduled to debate the Brexit bill amended by the House of Lords. If the amendments are overturned in the House of Commons, the bill will formally become law. However, if the bill is passed back to the House of Lords and the ping pong period continues, Britain's pro-Brexit media will probably slam the House of Lords for 'ignoring the will of the people.'

March 15: A BBC report says May intends to formally trigger Article 50 on this day. If she does so, she will send letters to EU leaders expressing her desire to begin Brexit negotiations.

March 25: EU heads of state will be gathering in Rome to celebrate the 60th anniversary of the signing of the Rome Treaty. Theresa May is not expected to attend.

Miki Yamaguchi, Sydney Branch

Australian Dollar – March 2017

Expected Ranges	**Against the US$:**	**US$0.7400–0.7800**
	Against the yen:	**JPY84.00–88.00**

1. Review of the Previous Month

The AUD/USD pair rose in February.

After kicking off the month at the upper-USD0.75 mark on February 1, the pair then climbed to the lower-USD0.76 level on February 2 after Australia's trade surplus for December came in at +AUD 3.51 billion, up sharply on forecasts for a surplus in the region of +AUD 2 billion. The Australian dollar continued to be bought during overseas trading time, with the pair rising to the upper-USD0.76 level. The pair then dropped back to the mid-USD0.76 mark on February 3 on the impending release of the U.S. employment data for January, but the greenback moved bearishly after the employment data revealed that average hourly wages had grown at a sluggish pace. The pair subsequently bounced back to the upper-USD0.76 level. The board of the Reserve Bank of Australia (RBA) kept the cash rate fixed at a record low 1.5% when it met on February 7. However, its statement contained an optimistic outlook for the Australian economy, so the pair floated around the upper-USD0.76 mark. However, it then edged down to the mid-USD0.76 mark during overseas trading time and then moved flatly around this level.

The RBA released its Quarterly Statement on Monetary Policy on February 10, but the growth and inflation forecasts were left unchanged, so the impact on the currency pair was muted. The pair then fell to the lower-USD0.76 mark on February 13 on movements clearly related to Trumponomics (rising U.S. stocks/interest rates and a bullish greenback). The Australian NAB Monthly Business Survey for January was released on February 14. It returned to pre-Lehman levels and this saw the AUD/USD pair bouncing back to the upper-USD0.76 mark. However, the greenback then soared after FRB Chair Janet Yellen said that "waiting too long to remove accommodation would be unwise." The currency pair subsequently dipped to the lower-USD0.76 mark. With stocks rising across the globe on February 15, the Australian unit was also dragged higher and the pair topped USD0.77.

The minutes to the RBA board meeting were released on February 21. These struck an optimistic tone and stated that the slowdown caused by a fall in mining investment would soon be overcome. The minutes also reinforced the impression that the RBA would not be discussing a rate cut. As a result, the pair continued trading around USD0.77. It temporarily hit a monthly high of USD0.7741 on February 23, but its topside was not tested further and it continued to trade in a range between the upper-USD0.76 level and the lower-USD0.77 mark.

2. Outlook for This Month:

'Attention will be focused on the results of the FOMC meeting (set for release on March 16, Sydney trading time).'

Recently, stocks have continued to rise in Australia, the U.S. and the emerging economies, for example. With expectations growing for large-scale tax cuts by the Trump administration, U.S. equities are moving firmly, with the Dow Jones hitting record highs, for instance. This trend is also being supported by improving fundamentals in the emerging economies. The Chinese economy is attracting particular attention. Though the Chinese economy is still fraught with risk in relation to structural adjustment and so on, China's Manufacturing PMI and imports (a measure of domestic demand) have both improved and the economy seems to be undergoing a cyclical recovery. As a result, the price of iron ore (Australia's primary export) is rising again for the first time in roughly two and half years. In addition to bullish stock prices, the Australian unit's rise since the start of the year has also been propelled by bullish commodity prices.

The Australian employment data for January was released on February 16. It revealed that the number of full-time workers had fallen sharply by 44,800, but the number of part-time workers grew by close to 60,000, with the growth in part-time work catching the eye once again. Australia has lost 56,100 full-time jobs this past year, while the number of part-time jobs has increased by 159,400. This trend suggests the labor market is unlikely to cause significant inflationary pressure over the next few years. The RBA has also identified uncertainty about the direction of the labor market as a risk factor, so it will probably stick to the path of easing for the time being.

Meanwhile, the U.S. January CPI data rose. This could impact any decision about rate hikes, with FRB Chair Janet Yellen also dropping hints about an early rate hike in her testimony to Congress. Under these circumstances, attention will focus on the March 14–15 FOMC meeting to see whether the FOMC implements a rate hike. The majority of FRB members predicted three rate hikes in 2017 in their federal funds rate projections (the dot chart), released December 2016. Bets in the U.S. short-term interest rate futures market also put the odds of such a prognosis at around 30%. Market participants will be also paying close attention to the FOMC statement, Yellen's press conference and the dot chart in order to obtain hints about the possibility of a rate hike.

With the U.S. expecting a rate hike and Australia likely to leave monetary policy fixed, the AUD/USD pair will probably trend lower on this divergence in monetary policy. However, the Australian unit will be supported as commodity prices move bullishly on expectations for increased demand from China, so the pace of the pair's slide will be gentle.

Yukihiro Mitsuno, Americas Treasury Department

Canadian Dollar – March 2017

Expected Ranges	Against the US$:	C$1.3160–1.3460
	Against the yen:	JPY84.60–87.38

1. Review of the Previous Month

The USD/CAD pair mainly moved with a lack of direction around C$1.31 in February, though it shot up at the month's end.

It opened the month trading at C$1.3040. It then hit C$1.3102 at the start of the month after the U.S. January ADP National Employment Report substantially outperformed market expectations and the January Manufacturing ISM Report on Business rose for the fifth month in a row. The Trump administration then made some verbal interventions to curb the U.S. dollar's rise. With U.S. interest rates also sliding on fears of a trade war, the greenback was sold and the pair hit a monthly low of C$1.2981 as market participants tested its downside. However, this was its lowest level since September last year and it was met with some strong appetite for U.S.-dollar buying. With the nonfarm payrolls figure also rising sharply above expectations in the U.S. employment data for January, the currency pair gained to C$1.3083. Risk aversion then intensified on growing concerns that the candidate of the far-right National Front party might win in the French presidential election. With WTI crude oil prices also falling sharply, the pair strengthened to C$1.3212.

WTI prices rallied mid-February as the weekly crude oil inventories data pointed to falling inventories, so the currency pair dropped back to the lower-C$1.31 mark. News then emerged about high compliance among OPEC members when it came to agreed output curbs. This supported the Canadian unit. The Canadian employment data for January was released on February 10. The net change in employment figure substantially outperformed prior forecasts, with the unemployment rate also dipping below expectations, so the Canadian unit was bought and the currency pair fell temporarily to C$1.3063. President Donald Trump then held a meeting with Canadian Prime Minister Justin Trudeau. Though nothing particularly noteworthy emerged from the meeting, the subsequent press conference saw the two leaders reaffirming their commitment to cordial U.S./Canada relations while also predicting that bilateral trade policy would only be tweaked slightly. As concerns about U.S./Canadian trade relations dropped off, the Canadian dollar was bought and the USD/CAD pair fell to the lower-C$1.30 range.

At the end of the month, FRB Chair Janet Yellen struck a hawkish tone in her testimony to Congress when she commented that "waiting too long to remove accommodation would be unwise." With U.S. interest rates also rising on bullish U.S. economic indicators, the currency pair edged higher to hit the upper-C$1.31 level. With New York FRB President William Dudley then commenting that "the case for monetary policy tightening has become a lot more compelling," the greenback was bought on rising

U.S. interest rates, so the pair rose to a monthly high of C$1.3314 before closing the month at C$1.3301.

2. Outlook for This Month:

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

Last month was marked by a dearth of factors capable of carving out a path for the pair. Though it dropped below C$1.30 at the start of February, the pair mainly traded in a narrow range between C$1.30 and the lower-C$1.32 mark. Events attracting attention this month include the Bank of Canada (BOC) Monetary Policy Committee (MPC) meeting on March 1, the FOMC meeting over March 14–15, and President Trump's budget message. For the reasons outlined below, the currency pair is expected to continue moving in a range on a mix of positive and negative factors.

The Canadian GDP for November was released after the January BOC MPC meeting, with the net change in employment figure substantially outperforming market forecasts, so the MPC meeting at the start of this month is unlikely to be as dovish as the previous meeting. Furthermore, though BOC Governor Stephen Poloz had voiced concerns about U.S./Canadian trade relations, the meeting between President Trump and Prime Minister Trudeau went well, so there will probably not be any significant shifts in bilateral trade relations for the time being. This is likely to be a positive factor when it comes to Canada's economic outlook, so it will also bolster the Canadian unit's movements.

At the same time, the market consensus is that the FOMC will strengthen its hawkish stance about a June rate hike when it meets mid-March. A number of key FOMC members have hinted at three rate hikes taking place this year. The FOMC has insisted it will lift rates at a slow pace. At present, the markets have only priced in a 36% chance of a rate hike in March, so the FOMC will find it hard to implement such a move when it meets this month. However, the FOMC might fall behind the wave of economic expansion if it waits until June, so many observers expect it to lift rates when it meets in May. As a result, the greenback will probably be bought if the FOMC adopts a hawkish stance in March.

When it comes to the U.S. government budget, President Trump has talked about policies to stimulate the economy, including tax cuts, but he has also discussed infrastructure spending that could benefit the Canadian economy too, such as the Keystone XL Pipeline. The lion's share of Canadian exports goes to the U.S., so any U.S. economic expansion will be good for Canada. As such, Trump's economic policies are not expected to have any particular impact on the movements of the USD/CAD pair.

Tomohiro Yamaguchi, Seoul Treasury Office

Korean Won – March 2017

Expected Ranges	**Against the US$:**	**KRW1,095–1,155**
	Against the yen:	**JPY9.71–10.10 (KRW100)**
		(KRW9.90–10.30)

1. Review of the Previous Month

The dollar/won pair fell in February. While hovering up and down, its room on the downside gradually widened.

At the end of January, President Donald Trump criticized Japan and China for manipulating their currencies lower. Peter Navarro, head of the National Trade Council, also accused Germany of using a "grossly undervalued" euro in an interview with the Financial Times. As a result, the dollar/won pair opened the month trading at KRW1150.0 on February 1, down 12.1 won on the end of January. It then hit a monthly high of KRW1158.6 on the same day. U.S. interest rates then fell on February 2 in the wake of the FOMC meeting, while the average hourly wages data dipped below market expectations when the U.S. employment data was released on February 3. All this saw the pair falling lower to hit KRW1135 at the start of the following week on February 6.

However, opinion polls published at the weekend showed a drop in support for French presidential election candidate Francois Fillon after he was embroiled in a scandal. Amid ongoing turmoil in relation to President Trump's curbs on immigration, risk sentiments worsened. The greenback rose on February 9 after President Trump said he would announce some "phenomenal" tax reforms within the next two to three weeks. During this time, the dollar/won pair's losses were pared back to KRW1154.

Trump met with Japanese Prime Minister Shinzo Abe over February 10–11. The meeting went smoothly, with no real mention of exchange rates or the U.S.'s trade deficit with Japan, so the dollar/yen pair strengthened at the start of the week on February 13. However, during the afternoon of Seoul trading time on February 14, news emerged that Trump's national security advisor General Michael Flynn had stepped down over speculation that he had reached a secret agreement with Russia concerning sanctions. The markets also focused on an article in the Financial Times that said "Taiwan and South Korea, not China and Japan, and Singapore in some ways are the worst offenders" when it came to currency manipulation. As a result, the dollar/won pair's room on the downside expanded again. FRB Chair Janet Yellen then struck a somewhat hawkish tone with a comment that "waiting too long to remove accommodation would be unwise," but with U.S. stock markets intermittently hitting record highs, the currency pair fell to KRW1133.0 on the morning of February 16.

The pair then returned to KRW1150 for a time on ongoing uncertainty related to the French presidential election. However, its room on the downside then expanded when the minutes to the FOMC meeting (released February 22) contained no strong hints about a March rate hike and anticipation towards President Trump's policies wore off. It fell to a monthly low of KRW1127.6 on February 24 and it then moved with a heavy topside to finish the month at KRW1130.7, down 16.8 won on the end of January.

2. Outlook for This Month:

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

At the moment, excessive speculation about President Trump's policies or early U.S. monetary tightening is wearing off, with fund inflows into South Korea picking up from the latter half of February. Under these circumstances, all eyes will be on Trump's speech to Congress on February 28 and the FOMC meeting on March 15. The greenback could rise depending on contents of Trump's economic policies, the FOMC statement or the federal funds rate projections of FOMC members (the dot chart), for example. However, if Trump does not announce any specific policy details or if the FOMC remains determined not to rush into hiking rates, then the dollar/won pair will continue sliding.

When it comes to President Park Geun-hye's impeachment trial, the constitutional court has indicated it wants to reach a conclusion by March 13, when justice Lee Jung-Mi is due to step down. At a pleading on February 27, though, President Park's team denied the charges against her. Park's team gave the impression of trying to stall for time. They asked to examine phone conversations recorded by a former confidant of fellow defendant Choi Soon-sil, for example, while also saying the court should wait until it had nine sitting judges.

With national feelings riding high, special prosecutors also arrested Samsung's vice chairman Jay Y. Lee. They charged him with bribery and they also accused President Park of conspiring to extort money from Samsung. However, the lion's share of the indictment pertains to the sinking of the MV Sewol ferry and Park's 'missing seven hours' after the disaster, but the investigation has now been called off and Prime Minister Hwang Kyo-ahn did not grant the case an extension, so prosecutors are unable to directly investigate Park's role in the incident.

Despite all this, South Korea is driven more by national sentiment than evidence or legalities, so if the constitutional court does reach a decision by March 13, it will probably lead to Park's dismissal from office. If this happens, a presidential election will follow in May. As such, speculation about fiscal stimulus or monetary easing could flare up from the latter half of March, so caution will be needed.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – March 2017

Expected Ranges	**Against the US$:**	**NT$30.30–31.50**
	Against the yen:	**JPY3.56–3.75**

1. Review of the Previous Month

The USD/TWD pair weakened in February.

The greenback fell during the Lunar New Year holiday, so after the holiday the pair was down sharply at TWD31.250 when trading opened on February 2. It temporarily dipped to TWD31.020 as the U.S. dollar was sold and the Taiwan dollar bought. This marked its lowest point since July 2015. The U.S. unit remained bearish over February 3, with the pair dropping just below the key TWD31 barrier.

The U.S. employment data for January was released during the morning of NY trading time on February 3. At +227,000, non-farm payrolls growth was up on market expectations. Average hourly wages growth moved sluggishly, though, so the greenback depreciated after the announcement. As a result, the pair had weakened to TWD30.900 by the time trading opened the following week on February 6. With stock markets moving firmly thereafter, Taiwanese stocks saw more buying on balance by overseas investors, so the currency pair moved with a heavy topside. On February 9, though, President Trump said he would announce some "phenomenal" tax reforms within the next two to three weeks. This pushed the U.S. dollar higher and the pair temporarily rallied to TWD31.1 on February 10. U.S.-dollar buying was short-lived, though. With exporters also buying the Taiwan dollar, the USD/TWD pair moved bearishly once more.

There was no direct criticism of Japan's currency policy at the U.S./Japan heads of state meeting that took place over February 10–11. With the Dollar Index also rising, the pair climbed to TWD31.095. With stock prices moving firmly, though, overseas investors then poured more money into Taiwanese stock markets. As a result, the Taiwan unit was bought and the pair fell to TWD30.660, even though the Dollar Index rose on hawkish comments by FRB Chair Janet Yellen in her testimony to Congress. The bullishness of the Taiwan dollar was quite prominent. The week of February 13–18 saw overseas investors buying on balance in Taiwanese stock markets to the tune of TWD29 billion. This was a major reason behind the Taiwan unit's strength during this week.

Stocks stopped rising toward the end of the month, but the pair remained bearish on increased real demand by exporters. In the end, it closed the month trading at TWD30.650.

2. Outlook for This Month:

The USD/TWD pair's movements in March will continue to be shaped by U.S. dollar bearishness and Taiwan dollar bullishness.

A glance at Taiwanese economic indicators released in February shows exports rising for the fourth successive month to hit +7.00% year-on-year. This was down on the previous month's figure of +14.00% y-o-y, mainly because the number of working days was curtailed by the Lunar New Year holiday, but exports continue to move firmly on growing demand for electronic parts, a trend that began in the latter half of 2016. Taiwan's Ministry of Finance expects the global economy to improve from the first half of 2017, but it has also pointed to uncertainties related to the Trump administration's protectionist stance or the construction of domestic supply chains in China. The export orders indicator released by Taiwan's Ministry of Economic Affairs has also moved in positive territories for six consecutive months. Firms are rebuilding their inventories on the back of the rising market price of liquid crystal panels.

Factors to watch out for in March include U.S. monetary policy, trends related to the Trump administration, and Taiwanese stock markets. FRB officials have recently made a number of hawkish comments, but the futures markets have not priced in an FOMC rate hike in March, while concerns are also emerging that the Trump administration might be slow to implement its large-scale fiscal stimulus measures. Furthermore, there is growing uncertainty about the direction of the flurry of elections set to take place in major eurozone nations from March onwards. Under these circumstances, the greenback is unlikely to trend upwards unless expectations for a rate hike surge on the release of some bullish major U.S. economic indicators, including the February employment data.

At the same time, if the Trump administration delays its planned tax cuts, stocks will undergo some adjustment after previously undergoing an expectation-led rise. Overseas investors have pumped a lot of funds into Taiwanese stock markets since the turn of the year, but if this trend reverses, the U.S. dollar will be bought and the Taiwan dollar sold, so it is hard to imagine the USD/TWD pair undergoing a one-sided slide.

Taiwan will also be holding its quarterly Monetary Policy Meeting at the end of March. Policy rates will probably be left untouched, though, so the impact on the market will be negligible.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – March 2017

Expected Ranges	**Against the US$:**	**HK$ 7.7577–7.7700**
	Against the yen:	**JPY 14.30–14.80**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in February

In February, the Hong Kong dollar depreciated against the U.S. dollar and the exchange rate temporarily exceeded HKD 7.76 to the U.S. dollar. Despite the fact that the U.S. dollar remained robust, negative sentiment for the Chinese yuan was mitigated. As a result, some local companies started to slowly and sporadically buy back offshore Chinese yuan (by selling the Hong Kong dollar and buying offshore Chinese yuan), speeding up the depreciation of the Hong Kong dollar. Furthermore, the strength of the Hong Kong stock market also led to capital inflow into the Hong Kong dollar exchange market, maintaining the downtrend in the Hong Kong dollar market, with falling Hong Kong dollar interest rates. The one-year U.S. dollar/Hong Kong dollar forward interest rate temporarily widened its negative margin from the -100 points observed in the previous month, due to procurement demand for seasonal reasons before the accounting period. However, the futures market has generally been stable, as there is no factor of turbulence in the current outlook for the U.S. interest rate hikes or in the liquidity level in the offshore Chinese yuan market.

Hong Kong dollar interest rate market in February

The Hong Kong dollar interest rates remained stable in February, thanks to the fact that the liquidity level remained high while expectations for U.S. interest rate hikes did not grow further. The Hong Kong Monetary Authority (HKMA) intends to maintain the liquidity level high by maintaining balance in foreign exchange fund securities. As a result, the current deposit balance of the HKMA, which is used as the benchmark for the liquidity level in the interbank market, remained at approximately HKD 260 billion for the fifth consecutive month. The three-month HIBOR, the short-term benchmark interest rate, fell slightly from the 1.0% level observed in the previous month to the 0.95% level. The interest rate differentials between the three-month HIBOR and the three-month LIBOR show that the HIBOR remains lower than the LIBOR, reflecting the high liquidity level for the Hong Kong dollar. With regard to long-term interest rates, the three-year Hong Kong dollar interest rate was higher than the three-year U.S. dollar interest rate, reflecting the view in the market that the future interest rate hikes in the U.S. would lead to capital outflow from Hong Kong to the U.S. Then, the 10-year Hong Kong dollar/U.S. dollar basis swap interest rate declined once as a result of bond issuance in the middle of February, after which the rate returned to the level observed at the end of the previous month.

Hong Kong stock market in February

The benchmark Hang Seng Index exceeded 24,000, partially thanks to the strength of the U.S. stock market. New U.S. President Donald Trump stopped making provocative statements regarding the monetary policy of other countries, and expectations in the market are fading. As a result, it seems that funds are coming back to the stock market in emerging countries. In addition, there has been stricter regulation on capital outflow in Mainland China, which seems to be encouraging investors in Mainland China to invest in the Hong Kong stock market using the Stock Connect link between Mainland China and Hong Kong as an alternative strategy. Such a trend has also supported the stock market in Hong Kong.

2. Outlook for This Month:

Hong Kong dollar spot exchange market in March

The Hong Kong dollar is expected to weaken in March, as it is still possible for the FRB to raise the interest rate in March, and the U.S. dollar/Hong Kong dollar exchange rate is expected to shift from HKD 7.7577 to HKD 7.770. Market participants are expected to slow down Chinese yuan-selling, while there will be investors selling the Hong Kong dollar and buying the Chinese yuan, as was described above. The Hong Kong dollar is thus likely to depreciate in the times ahead. Furthermore, local investors are not as willing to convert their deposits in offshore Chinese yuan into the Hong Kong dollar as they were previously, which is also likely to weaken their appetite to buy the Hong Kong dollar. It should also be mentioned that the Chief Executive election to be held in Hong Kong on March 26, and this has been attracting substantial attention; However, regardless of the results of the election, the U.S. dollar peg system and the position of Hong Kong as a financial hub will not be changed significantly under the new administration, thus this situation is not likely to impact the market to a significant degree. More important risk factors include the deterioration of the relationship between China and the U.S. under new U.S. President Donald Trump, as well as a possible trade war. If such problems surface, there would potentially be capital outflow from the Hong Kong dollar market.

Hong Kong dollar interest rate market in March

Under the U.S. dollar peg system, the Hong Kong dollar interest rates are expected to gradually appreciate, following U.S. interest rates, which have recently been rising. Short-term interest rates are expected to remain stable, as the liquidity level in the Hong Kong dollar market has been high. On the other hand, longer-term interest rates are forecast to gradually appreciate, following U.S. interest rates, which are on the rise due to strengthening inflation pressure in the U.S. With regard to interest rate differentials between the Hong Kong dollar and the U.S. dollar, the appreciation of the Hong Kong dollar is likely to accelerate due to continued capital outflow from the Hong Kong market, based on expectations for U.S. interest rate hikes, resulting in the Hong Kong dollar interest rates exceeding the U.S. dollar interest rates. It should however be mentioned that there are some possible factors to lead the Hong Kong dollar interest rates to fall, such as changes in the offshore Chinese yuan liquidity level and a decline in the deposit balance in offshore Chinese yuan.

Chihiro Agekido, Treasury Division, MHBK (China)

Chinese Yuan – March 2017

Expected Ranges	**Against the US$:**	**CNY 6.7500–7.0500**
	Against the yen:	**JPY 15.32–17.19**
	Against 100 yen:	**CNY 5.8700–6.5274**

1. Review of the Previous Month

Foreign exchange market

In February, the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a range between CNY 6.85 and CNY 6.90.

The U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 6.86 level in February after the Chinese New Year holidays (from January 27 to February 2), with a stronger Chinese yuan against the U.S. dollar by 160 pips from the rate before the holidays. On February 6, market participants grew cautious about a possible victory by an extreme right wing candidate in the French presidential election, which weakened the euro, strengthening the U.S. dollar. On February 7, although the January amount of foreign currency reserves in China was announced and the figure fell below the USD 3 trillion mark (which was a psychological turning point), the impact on the market was limited. However, the Chinese yuan depreciated against the U.S. dollar and the U.S. dollar/Chinese yuan exchange rate approached CNY 6.89, following the overall appreciation of the U.S. dollar. Thereafter, the appreciation of the U.S. dollar slowed down and the U.S. dollar/Chinese yuan exchange rate returned to a level near CNY 6.86.

On February 9, U.S. President Donald Trump said that he would make an announcement on large-scale tax reform, which led the U.S. dollar to appreciate again. Following this trend, the U.S. dollar also appreciated against the Chinese yuan, and the U.S. dollar/Chinese yuan exchange rate approached CNY 6.89. On February 14, market participants interpreted the congressional testimony given by FRB Chair Janet Yellen to be somewhat hawkish, which led the U.S. dollar to appreciate further. However, the Chinese monetary authorities made clear their intention for monetary tightening, and the U.S. dollar depreciated against the Chinese yuan to the mid-CNY 6.85 level with actual demand.

In the second half of the month, the U.S. dollar was generally on a uptrend, as market participants were again aware of the possibly of an interest rate hike in the U.S. in March as well as political risks in Europe. As a result, the U.S. dollar also appreciated against the Chinese yuan. The U.S. dollar/Chinese yuan exchange rate thus continued fluctuating within a narrow range without moving into any direction throughout February.

Interest rate market

While the Chinese monetary authorities made it clear that their monetary policy was shifted toward monetary tightening, interest rates appreciated for the overall periods.

On February 3 after the Chinese New Year holidays, open-market operations and standing lending facility (SLF) loans were employed with increased interest rates. Furthermore, the use of open-market operations, which was observed every business day since January 2016, was postponed for six consecutive business days thereafter. As a result, capital demand increased mainly for fixed-term securities, raising interest rates. In addition, market participants temporarily grew cautious regarding the due date for the extraordinary liquidity support that was provided by a large Chinese bank in order to respond to capital demand before the Chinese New Year holidays, raising interest rates further. In the second half of the month, major Chinese banks slowed down in releasing funds into the market, while capital demand was growing for the end of the month. As a result, interest rates appreciated further.

2. Outlook for This Month:

Foreign exchange market

The U.S. dollar/Chinese yuan exchange market is forecast to remain stable in March.

From March 5, the National People's Congress is to be held (for approximately 10 days). The items to be discussed at the National People's Congress include the target figures for major economic indices, such as the GDP, as well as the economic policy for 2017. An assertive fiscal policy is likely to be taken, in order to maintain a stable economy toward the quinquennial party convention scheduled for autumn this year. The Chinese yuan is thus expected to appreciate because of expectations for the stability of the Chinese economy and the continued measures of monetary tightening.

On the other hand, with regard to the tax reform plan to be announced by U.S. President Donald Trump in the middle of March, the U.S. dollar may either depreciate or appreciate depending on its contents. Furthermore, there are some political risk factors in Europe, such as the Lower House election in the Netherlands scheduled for March, the notification of U.K. withdrawal from the EU, and the French presidential election in April. Thus, the euro market may become unstable if market participants grow cautious about these risks, which may strengthen the U.S. dollar, leading the U.S. dollar to appreciate against the Chinese yuan as well. However, the Chinese monetary authorities are aiming to stabilizing the Chinese yuan foreign exchange market, avoiding the one-sided depreciation of the Chinese yuan in March, when the National People's Congress is to be held. This intention of the Chinese monetary authorities is likely to be reflected in the market.

Interest rate market

The upward pressure is likely to remain in the interest rate market.

It is clear that the Chines monetary authorities have shifted the monetary policy toward tightening, and this is likely to remain unchanged in the times ahead. In March, interest rates are likely to appreciate with capital demand for the end of the quarter. Interest rates are thus forecast to remain high during this month. Market participants have been more cautious than before regarding the monetary policy taken by the Chinese monetary authorities, and this can be exemplified by the fact that there were some rumors in February regarding the deposit requirement ratio cut specifically targeting certain financial institutions. Market participants should also keep an eye out for the target figures to be discussed at the National People's Congress, such as that for money supply.

Noriko Suzuki, Asia & Oceania Treasury Department

Singapore Dollar – March 2017

Expected Ranges	**Against the US$:**	**SG$ 1.3900–1.4350**
	Against the yen:	**JPY 79.00–81.00**

1. Review of the Previous Month

The Singapore dollar remained weak in February, although the U.S. dollar/Singapore dollar exchange rate fluctuated only within a relatively narrow range.

Given that U.S. President Donald Trump announced an executive order to ban immigration on January 30, market participants bought the Singapore dollar against the U.S. dollar in the market with few activities after the Chinese New Year holidays. As a result, the U.S. dollar/Singapore dollar exchange market opened trading in February at around SGD 1.41, with the strongest Singapore dollar in approximately 2.5 months. At the FOMC meeting held on February 1, the interest rate was maintained at the existing level, as had been expected in the market, and the contents of the statement was almost the same as previous, without giving any additional indication regarding the possibility of an interest rate hike in March. As a result, the Singapore dollar remained robust against the U.S. dollar. Then, on March 3, the January employment statistics of the U.S. were released, and the number of non-agricultural employees recorded a significant increase. However, market participants were concerned about the slowdown in the growth of the average hourly salary. Therefore, the U.S. dollar weakened in the end.

In the following week, market participants bought the Singapore dollar on February 6, as the U.S. dollar depreciated after the announcement of the January employment statistics of the U.S. As a result, the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.40 level. However, market participants grew cautious thereafter, as the media reported that the support rate of a promising candidate in the French presidential election, Francois Fillon, had dropped due to his alleged misconduct, making it possible for the extreme right candidate, Marine Le Pen, who is supporting an exit from the EU, to win the election. As a result, risk-averse sentiment grew in the market and the Singapore dollar depreciated. Then, on February 7, the risk-averse sentiment remained in the market, and as a result, the Singapore dollar depreciated significantly. The U.S. dollar/Singapore dollar exchange rate moved from the upper-SGD 1.40 level to the upper-SGD 1.41 level. On February 9, U.S. President Donald Trump promised to announce a tax cut plan in the near future, which led the U.S. dollar to appreciate against the other overall currencies, encouraging market participants to continue selling the Singapore dollar.

In the third week of February, the U.S. dollar, U.S. stocks, and U.S. interest rates continued appreciating with expectations for the tax cut plan in the U.S. Following this trend, the Singapore dollar continued depreciating and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.42 level. On February 14, the U.S. dollar depreciated during trading hours in Asia, due to the media report on the resignation of the national security advisor of U.S. President Donald Trump, Michael Flynn, leading the Singapore dollar to rally against the U.S. dollar to approach the mid-SGD 1.41 level. However, in the evening of the same day, FRB Chair Janet Yellen stated, as part of her congressional testimony, that it would not be wise to postpone the interest rate hike for too long. This reversed the trend in the market, and the Singapore dollar depreciated sharply. On February 15, the February result of the Empire State Manufacturing Survey conducted by the Federal Reserve Bank of New York and the January Consumer Price Index (CPI) both turned out to be strong, which led the Singapore dollar to its monthly low against the U.S. dollar at the upper-SGD 1.42 level. However, the U.S. dollar started to depreciate thereafter on February 16, the following day, due to profit-taking activities in the market, despite the fact that the February Philly Fed index, prepared by the Federal Reserve Bank of Philadelphia to measure business confidence, turned out to be at its highest level since 1984. As a result, U.S. stock prices also hit a ceiling, and U.S. interest rates started to fall. On February 17, market participants continued selling the U.S. dollar in order to adjust positions before three consecutive holidays in the U.S. Following this trend, market participants bought back the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.41 level.

In the fourth week of February, the media reported that the support rate of Marine Le Pen, the head of France's extreme right political party for the forthcoming French presidential election, had appreciated. This strengthened risk-averse sentiment in the market. As a result, the Singapore dollar started to depreciate against the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.42 level on February 21. However, the minutes of the FOMC meeting were released on February 22 without giving any indication regarding the interest rate hike in March, and this encouraged market participants to buy the Singapore dollar to adjust positions. As a result, the Singapore dollar renewed its highest rate against the U.S. dollar for the first time in 3.5 months at the upper-SGD 1.39 level.

2. Outlook for This Month

In March, the Singapore dollar is forecast to weaken against the U.S. dollar, following various factors such as monetary policy in the U.S., the economic measures to be taken by U.S. President Donald Trump, and political issues in Europe.

While the U.S. dollar has been supported by the tax cut by U.S. President Donald Trump as well as due to expectation for investment in infrastructure, expectations are growing for the U.S. interest rate to be raised at the FOMC meeting to be held on March 15. Furthermore, in Europe, various factors exist, such as the Lower House election in the Netherlands scheduled for March 15, the presidential election in France scheduled for April, and the official exit of the U.K. from the EU, and these may increase risk-averse sentiment in the market in the times ahead. Therefore, there are many overseas factors to lead the Singapore dollar to depreciate. However, even though there are risks for the Singapore dollar to depreciate, the Singapore dollar is not likely to depreciate further than the lowest level observed at the beginning of the year, as market participants have already bought the U.S. dollar with expectations for the measures to be taken by U.S. President Donald Trump along with the interest rate hike in the U.S.

From the point of view of domestic factors as well, the Singapore dollar may depreciate based on speculation, as the revision of monetary policy by the Monetary Authority of Singapore (MAS) in April is approaching. This is due to the fact that an increasing number of market participants may expect the MAS to shift its monetary policy toward easing in order to mitigate downward risks on the Singapore economy, such as the protectionism of U.S. President Donald Trump regarding his trade policy, which would negatively impact the Singapore economy, as it is highly dependent on exports to the U.S. However, the CPI has recently started to grow in Singapore, mitigating concerns over deflation. It is thus not likely for the MAS to actually take measures of monetary easing, as it is required to cut the SGD nominal effective exchange rate or expand the policy fluctuation band only in emergency situations with high volatility, such as during a financial crisis.

Hiroyuki Yamazaki, Bangkok Treasury Office

Thai Baht – March 2017

Expected Ranges Against the US$: BT 34.70–35.20
Against the yen: JPY 3.10–3.28

1. Review of the Previous Month

On February 1, the U.S. dollar/Thai baht exchange rate remained at around THB 35.10 before the FOMC meeting. At the FOMC meeting, the outlook for the future interest rate hikes was not mentioned, which led the U.S. dollar to gradually depreciate. On February 2, the Office of Industrial Economics at the Ministry of Industry of Thailand announced the manufacturing index, which turned out to be strong. As a result, the U.S. dollar/Thai baht exchange rate fell to THB 35.05. On February 3, Minister of Finance Apisak Tantivorawong made a remark regarding the expenditure for governmental projects in FY2017, which kept the U.S. dollar/Thai baht exchange rate low, together with recent remarks to give warning regarding the appreciation of the U.S. dollar. Thereafter, the January employment statistics of the U.S. were released, and the decline in the average hourly salary led the U.S. interest rates to depreciate, leading the U.S. dollar/Thai baht exchange rate to temporarily fall to THB 35.02. After the weekend, the U.S. dollar/Thai baht exchange rate remained low at around THB 35.00 on February 6, due to criticism over weak currencies as caused by U.S. President Donald Trump. On February 7, the following day, the U.S. dollar/Thai baht exchange rate remained at around THB 35.00. On February 8, there was a monetary policy committee meeting at the central bank of Thailand (BOT), and the policy interest rate was maintained at the existing level (1.5%), as a unanimous decision. There were also concerns expressed at this meeting regarding the appreciation of the Thai baht, in reaction to which the U.S. dollar/Thai baht exchange rate temporarily rose to THB 35.07. However, the exchange rate returned to THB 35.00 to the U.S. dollar again during overseas trading hours. Then, on February 9, the U.S. dollar/Thai baht exchange rate did not move significantly, fluctuating at around THB 35.00, with few activities before the holidays. The governor of the central bank of Thailand, Veerathai Santiprabhob, mentioned the inflation rate and the foreign exchange interventions thereafter. However, the reaction in the market was limited. During overseas trading hours, U.S. President Donald Trump mentioned a tax cut policy, which led the U.S. dollar/Thai baht exchange rate to rise, almost reaching THB 35.10. On February, the same trend remained in the market, while market participants sold overall Asian currencies. Under such conditions, the U.S. dollar/Thai baht exchange rate remained at around THB 35.05.

On February 14, after the weekend, the media reported the resignation of the national security advisor of U.S. President Donald Trump, Michael Flynn, which strengthened risk-averse sentiment in the market. As a result, the U.S. dollar/Thai baht exchange rate fell to the mid-THB 34.90 level for the first time in November last year. However, FRB Chair Janet Yellen expressed a positive attitude toward the interest rate hike thereafter during the congressional testimony of the Senate Banking Committee, encouraging market participants to buy back the U.S. dollar. Consequently, the U.S. dollar/Thai baht exchange rate recovered to the THB 35.00 level. On February 15, the following day, and February 16, the U.S. dollar/Thai baht exchange rate fluctuated at around THB 35.00. On February 17, the U.S. dollar/Thai baht exchange rate remained low, due to the fact that U.S. President Donald Trump did not explain the details of the economic stimulus measures at the press conference held on the previous day, as well as because the sense of uncertainty was growing in the market regarding policy management in the U.S. On February 20 after the weekend, the U.S. dollar/Thai baht exchange market opened trading at the upper-THB 34.90 level. Even though the October–December quarter GDP of Thailand was released, the result turned out to be +3.0% year-on-year—almost as had been expected in the market (the forecast was +3.0%)—and thus the impact on the market was minimal. On February 21, the minutes of the BOT's Monetary Policy Committee meeting (held on February 8) and the minutes of the FOMC meeting (held on January 31 and February 1) were released, while U.S. Treasury Secretary Steven Mnuchin expressed his attitude to support the "strong U.S. dollar policy." However, market participants did not react to such factors dramatically, as they were waiting for remarks regarding tax reforms by U.S. President Donald Trump. The U.S. dollar/Thai baht exchange rate thus continued fluctuating within a narrow range at around THB 35.00. Although the exchange rate remained at around THB 35.00 to the U.S. dollar until around February 23, U.S. Treasury Secretary Steven Mnuchin did not make any comment regarding the tax reform, neither on February 23 nor on February 24, which raised concerns in the market regarding the tax reform plan. As a result, risk-averse sentiment grew in the market and the U.S. dollar/Thai baht exchange rate fell to the THB 34.80 level toward the end of the month.

2. Outlook for This Month:

The Thai baht is forecast to remain strong during this month. The October–December quarter trade balance and the GDP of Thailand, which were released in February, turned out to be stable although not very high, while economic conditions remain at the medium level. As the attitude of the BOT regarding its policy interest rate has also been stable, the Thai interest rates are rising following the appreciation of the U.S. dollar interest rates. Therefore, capital inflow into Thailand is expected to continue in a stable manner in the times ahead. The only source of concern regards political issues unrelated to the economy. However, even the military government maintains its attitude of focusing on economic strength without any particular political turbulence, after the death of the King of Thailand, as related to the management of political powers as well as the execution of policy measures. Thus, the political situation is also expected to remain stable in the times ahead.

The period of national mourning, which lasted for 100 days after the death of the King, has ended, and conditions are gradually going back to normal. Thus, personal consumption is expected to support economic conditions in Thailand in the times ahead. However, it is difficult to deny the possibility for the appreciation of the Thai baht to lead to negative impact on the export industry in Thailand. From a historical point of view, it has been widely known that the U.S. dollar/Thai baht exchange rate at around THB 34.50 has been the psychological turning point for the BOT. Before that happens, the pressure to sell the Thai baht is expected to strengthen, due to the cautious sentiment in the market. As a result, the Thai baht is expected to gradually appreciate in the times ahead. It should also be mentioned that there are many factors to influence the U.S. dollar exchange market, such as the speeches of U.S. President Donald Trump as well as the decision regarding the policy interest rate hike in March by the FOMC, both of which need to be carefully observed. With regard to Europe, there will only be one month before the French presidential election, which also needs to be carefully observed. It should be emphasized that when risk-averse sentiment grows in the market, as related to such factors, it is likely that market participants will sell the U.S. dollar.

Takashi Miyachi, Asia & Oceania Treasury Department

Malaysian Ringgit – March 2017

Expected Ranges	**Against the US$:**	**MYR 4.38–4.48**
	Against the yen:	**JPY 25.00–26.00**

1. Review of the Previous Month

In February, the Malaysian ringgit market was closed on February 1, and the U.S. dollar/Malaysian ringgit exchange market opened trading at the upper-MYR 4.42 level. Thereafter, the January manufacturing PMI of Malaysia was announced, and the figure remained below 50, which weakened the Malaysian ringgit to the lower-MYR 4.44 level. However, as the U.S. long-term interest rates depreciated, the Malaysian ringgit rallied against the U.S. dollar to the lower-MYR 4.43 level. On February 6, market participants maintained a wait-and-see attitude before the announcement of the January employment statistics of the U.S. There were few market activities, and the U.S. dollar/Malaysian ringgit exchange market closed for the week at the mid-MYR 4.42 level.

On February 6, expectations for early interest rate hikes in the U.S. diminished, as the January employment statistics of the U.S. were released at the end of the previous week, revealing that the growth of the average salary had been lower than the market estimate. While market participants sold the U.S. dollar, the Malaysian ringgit appreciated against the U.S. dollar to MYR 4.4200 for the first time in approximately three months. Thereafter, the trend was reversed, and the Malaysian ringgit depreciated to MYR 4.44 to the U.S. dollar, due to the political uncertainty related to the French presidential election as well as the significant depreciation of the crude oil price. On February 10, the U.S. dollar strengthened in reaction to the announcement on tax reform made by U.S. President Donald Trump during overseas trading hours. As a result, the Malaysian ringgit continued depreciating to the upper-MYR 4.44 level. Thereafter, there were the fewer fluctuations in the market after the Chinese New Year, and the U.S. dollar/Malaysian ringgit returned to the mid-MYR 4.44 level.

In the middle of the month, the Malaysian ringgit continued depreciating to the upper-MYR 4.44 level as a result of the fact that the U.S.-Japan summit meeting closed without any problem at the end of the previous week, as well as because the crude oil price depreciated. Toward the middle of the week, FRB Chair Janet Yellen made a remark during the congressional testimony that was more hawkish than previously expected. As a result, market participants continued buying the U.S. dollar, and the U.S. dollar/Malaysian ringgit exchange rate exceeded MYR 4.4500. On February 16, the October–December quarter GDP of Malaysia was released, and the result turned out to be stronger than expected. However, the trend was not reversed, and the Malaysian ringgit continued depreciating against the U.S. dollar to the upper-MYR 4.45 level.

In the second half of the month, the Malaysian ringgit weakened temporarily, as risk-averse sentiment grew in the market due to political uncertainty in Europe. However, the depreciation slowed down as the crude oil price remained stable, and the U.S. dollar/Malaysian ringgit exchange rate remained at around the mid-MYR 4.45 level.
On February 22, the January Consumer Price Index (CPI) of Malaysia was released, and the result was higher than expected. In reaction to this, the Malaysian ringgit appreciated slightly to the lower-MYR 4.45 level. Thereafter, toward the end of the week, market participants started to buy the U.S. dollar slowly, as there were no new factors revealed in the minutes of the FOMC meeting, released on the previous day. Malaysian ringgit-buying also increased to the lower-MYR 4.44 level.

In the last week of the month, market participants bought the Malaysian ringgit slowly, while the congressional speech by U.S. President Donald Trump was approaching. As a result, the Malaysian ringgit appreciated to the upper-MYR 4.43 level. The U.S. dollar somewhat rallied thereafter, and monthly trading closed at the MYR 4.4400 level.

2. Outlook for This Month

The October–December quarter GDP for 2016 revealed that the growth rate of the GDP rose further from the +4.5% year-on-year observed last term, while also exceeding the market estimate. It should also be mentioned that the annual GDP for 2016 turned out to be +4.2% year-on-year, remaining at the 4.0% level. The decline of the crude oil price has currently been slowing down, and personal consumption has remained robust. Such facts seem to indicate that the Malaysian economy has entered a recovery phase. In addition, the December industrial production and the import & export figures have also been stronger than expected. The economic environment of Malaysia is thus likely to support the Malaysian ringgit exchange market.

On the other hand, with regard to external factors, there are a number of factors that could encourage market participants to buy the U.S. dollar, such as expectations for tax reform by U.S. President Donald Trump as well as the hawkish attitude of FRB Chair Janet Yellen regarding monetary policy. There is certainly a possibility for U.S. President Donald Trump to cause the depreciation of the U.S. dollar, as he has also made a remark associated with protectionism in trade policy. However, from a short-term perspective, the external environment is more likely to lead the U.S. dollar to strengthen against the Malaysian ringgit.

It should be pointed out, however, that there has been a change in the trend of the outflow of overseas capital, which had previously been one of the major reasons for the depreciation of the Malaysian ringgit. Indeed, the funds that flew out as related to Malaysian government bonds in January declined to USD 300 million, which can be absorbed by the current account surplus on a single-month basis. Furthermore, the long-term Malaysian bond market has also been stable, indicating that the panic selling of bonds has ended.

For the above reasons, market participants are likely to buy the U.S. dollar in the overall foreign exchange market, while the bond-selling trend is less likely to lead the Malaysian ringgit to depreciate. The Malaysian ringgit is therefore forecast to remain somewhat weak during this month.

Ryosuke Kawai, Asia & Oceania Treasury Department

Indonesian Rupiah – March 2017

Expected Ranges	**Against the US$:**	**IDR 13,200–13,700**
	Against 100 rupiah:	**JPY 0.80–0.87**
	Against the yen:	**IDR 115.00–125.00**

1. Review of the Previous Month

In February, the U.S. dollar/Indonesian rupiah exchange rate remained within a narrow range between IDR 13,280 and IDR 13,390, with a monthly fluctuation band of approximately 100 points.

In the first half of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at around IDR 13,340, after which the exchange rate rose to approach IDR 13,390. However, the FOMC meeting was held on February 1, and the policy interest rate was maintained at the existing level, as had been expected, and this encouraged market participants to buy the Indonesian rupiah with a sense of relief in the market after an important event. As a result, the U.S. dollar/Indonesian rupiah exchange rate rose to the lower-IDR 13,300 level. With regard to domestic economic indices, the January Consumer Price Index (CPI) of Indonesia was released on February 1, and the result rose to +3.49% year-on-year, while the October–December quarter GDP was released on February 6, with the result turning out to be +4.94% year-on-year (the forecast was +5.00% and the previous result was +5.01%), falling below 5%—although the annual rate remained at the 5% level. The January foreign currency reserves were also released on February 7 with a slight increase from the previous month's figure.

On February 8, the U.S. ratings agency, Moody's, announced its decision to upgrade its outlook for Indonesia's rating from "Stable" to "Positive," which accelerated capital inflow from overseas. As a result, on February 9, the U.S. dollar/Indonesian rupiah exchange rate fell to approach IDR 13,280. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate remained at the lower-IDR 13,300 level before the general election in Indonesia. On February 10, the October–December quarter current account balance was released, and the result was -USD 1.812 billion, with a significantly smaller deficit compared to last quarter's figure (-USD 4.680 billion).

In the election for the governor of Jakarta , which attracted significant attention in the market, neither the most popular current governor, Basuki Tjahaja Purnama (also known as "Ahok"), nor the second popular, Anies Rasyid Baswedan, gained majority votes. Thus, there will be a second round in April.

On February 16, the January trade balance was released, and the trade surplus turned out to be +USD 1.396 billion, exceeding the market estimate (the forecast was USD 823 million, and the previous month's figure was USD 1.046 billion). However, the reaction in the market was limited. On the same day, the central bank of Indonesia (BI) also held its monetary policy meeting and decided to maintain the policy interest rate at the existing level for the fourth consecutive month, giving consideration to the political uncertainty in the U.S. as well as the domestic inflation trend.

Thereafter, in the second half of the month, the U.S. dollar/Indonesian rupiah exchange rate rose to the upper-IDR 13,300 as a result of demands to buy the U.S. dollar from importing companies. As of February 23 (closing rate), the U.S. dollar/Indonesian rupiah exchange rate was sitting at around IDR 13,350.

2. Outlook for This Month:

In March, the U.S. dollar/Indonesian rupiah exchange rate is most likely to fluctuate within a narrow range, mainly between IDR 13,300 and IDR 13,400.

The most important event in March is the FOMC meeting, scheduled for March 15 and 16. In February, FRB officials made a series of hawkish remarks, while the minutes of the FOMC meeting (held on January 31 and February 1) were released on the same day, with a positive attitude toward early interest rate hikes. Furthermore, multiple participants at the meeting expressed their concerns over the uncertainty regarding economic policy measures under the new government, along with the appreciation of the U.S. dollar. It should also be added that the market has not yet reflected the interest rate hike in March.

Under the above circumstances, if the interest rate is raised in March, it is possible for the Indonesian rupiah to depreciate more significantly, falling below the above expected fluctuation range. However, given the positive factors for Malaysia, such as the stable macro-economic indices in Indonesia as well as the decision to upgrade the outlook for Indonesia's rating by a major U.S. ratings agency, Moody's, it is unlikely for overseas capital to rapidly flow out of Indonesia. Thus, the depreciation is likely to be only a temporary phenomenon.

It should also be mentioned that the monetary policy meeting at the BI is scheduled for March 15 and 16 as well. As the FOMC meeting is also scheduled for the same days, local time, it is unlikely that an important decision will be made. The policy interest rate is therefore likely to be maintained at the current level for the fifth consecutive month.

Yoichi Hinoue, Manila Branch

Philippine Peso – March 2017

Expected Ranges	**Against the US$:**	**PHP 49.80–51.00**
	Against the yen:	**JPY 2.19–2.28**

1. Review of the Previous Month

In February, the U.S. dollar/Philippine peso exchange market opened trading at PHP 49.70.

At the FOMC meeting held on February 1, which attracted substantial attention in the market as a milestone related to the interest rate hikes in the U.S., the policy interest rate was maintained at the existing level as an unanimous decision, as had been previously expected in the market.

The FOMC statement was also almost the same as the one released in December, pointing to the improvement in household and corporate sentiment, so as to confirm economic stability. However, this did not fuel expectations for future interest rate hikes in the U.S. Market participants sold the U.S. dollar after the release of the January employment statistics of the U.S. on February 3, while also adjusting positions before the monetary policy meeting at the central bank of the Philippines (BSP), scheduled for March 9. As a result, on February 7, the U.S. dollar/Philippine peso pair traded at PHP 49.62—the monthly high for the Philippine peso in January.

However, risk-averse sentiment strengthened thereafter due to political uncertainty related to the forthcoming French presidential election, as well as due to the concerns over the possibility of France's exit from the EU (i.e., the "FREXIT"), leading the U.S. dollar to appreciate. The monetary policy was held at the BSP on February 9, and the major interest rates were maintained at the existing level, as had been previously expected in the market. This decision thus had little impact on the market.

On February 10, the U.S. dollar/Philippine peso traded temporarily at PHP 49.96. However, the U.S. dollar was sold before reaching the PHP 50 level, which is considered to be market intervention. Thus, the exchange rate did not rise further.

On February 14, during overseas trading hours, FRB Chair Janet Yellen spoke at the congressional testimony, and this had been attracting substantial attention in the market. As a result, expectations for early policy interest rate hikes grew further, raising U.S. interest rates. Following this trend, market participants also started gradually buying the U.S. dollar against the Philippine peso.

On February 20, after the weekend, the U.S. dollar/Philippine peso exchange rate exceeded the PHP 50 mark—the level long protected by the central bank of the Philippine. The market opened trading at PHP 50.08 to the U.S. dollar, with a gap from the closing rate of the previous day.

It seems that market participants bought the U.S. dollar after the weekend in order to avert risks related to European politics as well as because of expectation for a large-scale tax cut by U.S. President Donald Trump, along with expectations for the minutes of the FOMC meeting to include hawkish comments.

Furthermore, there was also demand to buy the U.S. dollar in actual trading, which also seems to be one of the reasons why the central bank of the Philippines accepted the depreciation of the Philippine peso above the PHP 50 level.

Market participants continued buying the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate once reached PHP 50.355. As of 10:00 of February 28, the U.S. dollar/Philippine peso was trading at the PHP 50.20–PHP 50.30 level.

2. Outlook for This Month

The U.S. dollar/Philippine peso exchange rate finally reached the PHP 50 level. On Monday, February 20, the U.S. dollar/Philippine peso exchange market opened trading with a gap from the closing rate of the previous week, and it did not seem to start falling again.

In the past three months, the central bank has been strictly keeping the Philippine peso from depreciating below the PHP 50 level. Due to this unexpected trend, the PHP 50 is now likely to be seen as a support line in the times ahead.

There has been strong demand to buy the U.S. dollar, and the important question is to which degree the central bank of the Philippine will accept the depreciation of the Philippine dollar, which will be reflected in the exchange rate.

On February 20, the January overall international balance of payments of the Philippines was released, and the deficit was reduced significantly from the previous month's -USD 210 million to -USD 9 million. On the other hand, the Philippine Stock Exchange index (PSEi) has been stable this year remaining at the 7,200–7.400 point level, while recording net stock sales by overseas investors for the sixth consecutive month. As capital outflow continues to accelerate, the demand to sell the U.S. dollar is likely to strengthen in the foreign exchange market.

The risk-taking sentiment in the market based on the appreciation of the U.S. stock prices has not impacted the Asian market, which makes it unlikely for market participants to buy the Philippine peso.

On December 15, the December amount of Overseas Filipino Worker (OFW) remittances, one of the major factors for the appreciation of the Philippine peso, was announced.

The amount of remittances reached +USD 2.56 billion, the all-time high on the single month basis, recording a total amount of annual remittances of +USD 26.9 billion for 2016 (with an increase by 5% from 2015). Even though this figure is considered to be a positive factor for the Philippine peso, more than 30% of the OFW remittances come from the U.S., which is fueling concerns regarding the impact of growing protectionism in the U.S. under U.S. President Donald Trump.

The BSP revised its inflation outlook upward from +3.3% to +3.5% for 2017, and from +3% to +3.1% for 2018. Even though these figures are within the inflation target range (+2%–4%), it should be kept in mind that the inflation rate may exceed this level, depending on the degree of the depreciation of the Philippine peso as well as the trend in the crude oil market.

Furthermore, BSP Governor Amando Tetangco, Jr. mentioned the possibility for the February Consumer Price Index of the Philippines to sit between +3.1% and +3.9%. As the rate may reach the level observed in November 2014 at 3.7%, the upward pressure on Philippine peso interest rates is likely to strengthen, fueling speculation about an interest rate hike.

Junya Tagawa, Asia & Oceania Treasury Department

India Rupee – March 2017

Expected Ranges	**Against the US$:**	**INR 66.50–68.50**
	Against the yen:	**JPY 1.62–1.72**

1. Review of the Previous Month

The U.S. dollar/India rupee exchange rate fell in February.

The U.S. dollar/India rupee exchange market opened trading at INR 67.47 in February. On February 1, a budget bill was presented with the intention of monetary easing, while the manufacturing PMI turned out to be above the 50 mark. As a result, market participants bought the Indian rupee. Even though there were some moments at which the Indian rupee was sold for a short period based on the risk-averse sentiment fueled by political uncertainty in France, the Reserve bank of India (RBI, the central bank of India) decided to maintain the policy interest rate at the existing level on February 8. As this was a surprise against market expectations, market participants sold the Indian rupee. As a result, the Indian rupee reached it monthly low against the U.S. dollar, at INR 66.80.

However, the Indian rupee did not continue depreciating thereafter, and the Indian rupee remained weak but stable. Toward the end of the month, the U.S. dollar/Indian rupee exchange rate fell to approach INR 65.65, as the crude oil market weakened while FRB officials made positive remarks regarding the interest hikes. Monthly trading closed at the INR 66.69 level.

The India rupee/Japanese yen exchange rate did not move into any direction.

The India rupee/Japanese yen exchange market opened trading at the JPY 1.66 level and fluctuated in both directions at the beginning of the month. However, the exchange rate rose to exceed JPY 1.71 after the meeting held at the RBI. However, in the second half of the month, the Japanese yen rallied against the U.S. dollar before the U.S. dollar/Japanese yen exchange rate reached JPY 115. Following this trend, the Indian rupee/Japanese yen exchange rate did not continue rising either and started falling. Toward the end of the month, the U.S. dollar/Japanese yen exchange rate fell to approach its low since the beginning of the year. Following this trend, the India rupee/Japanese yen exchange rate also fell to approach JPY 1.67. In the end, monthly trading closed at the JPY 1.69 level.

2. Outlook for This Month

The U.S. dollar/India rupee exchange rate is forecast to remain stable in March.

At the monetary policy meeting held in February, the interest rate hike was postponed, against expectations in the market. This was mainly due to the fact that the core inflation rate has remained strong as well as the fact that the impact of the discontinuation of high-value bank notes is considered to be temporary. On the other hand, the outlooks for the growth rate and prices have been revised downward, which was contradictory to the above decision. Furthermore, the budget bill for the next fiscal year loosened the target fiscal deficit regarding percentage GDP, giving consideration to the negative impact of the discontinuation of high-value bank notes. Under the current conditions, there has been no balance between monetary policy and fiscal policy with regard to key factors. It may therefore be the case that the central bank was cautious about an interest rate cut that may lead the India rupee to depreciate, while the U.S. dollar has been strong.

On the other hand, with regard to the economic indices of India, the discontinuation of the use of the high-value bank notes has negatively impacted industrial production as well as trade statistics, even though the manufacturing PMI remained robust. It can be said that the monetary policy has become more cautious regarding interest rate cuts. However, there have not been enough factors to give market participants a sense of relief.

In February, the India rupee appreciated against the U.S. dollar to the level observed before the FRB’s decision to revise upward the expected number of interest rate hikes. However, the U.S. dollar/India rupee exchange rate had not fallen below INR 66.50 after the victory of Donald Trump in the U.S. presidential election. It would thus be extremely difficult for market participants to buy the India rupee at this level.

In February, the U.S. dollar Index was higher than the level observed in January in the end, even though there were some moments of fluctuation. It can thus be said that the “Trump rally” has remained visible.

Risk factors (the depreciation of the U.S. dollar/India rupee exchange rate) include the remarks to give warning to the appreciation of the U.S. dollar made by the Trump administration, while positive factors (appreciation of the U.S. dollar/India rupee exchange rate) include the five state elections for which votes are to be counted on March 11, as well as the political uncertainty in Europe.