

Forex Market Weekly

Will US economic data move the dollar?

- Yen weakens on fading of worries over US tariffs and expected easing of US-North Korea tensions
- US import tariffs to be targeted at China, reciprocal tax also planned
- US economic data's impact on the dollar's value

This week's USD/JPY forecast range

12-16 Mar: Y105.7-107.7/\$ (Y106.8 at end-previous week)

Forex Market View DSFE129

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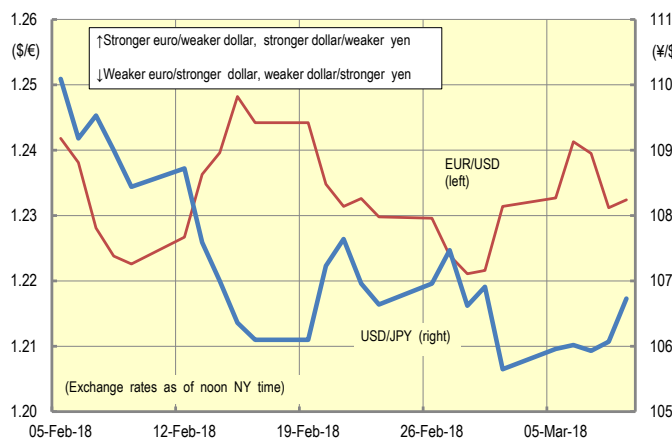


Yen weakens on fading of worries over US tariffs and expected easing of US-North Korea tensions

Overview of last week's forex market

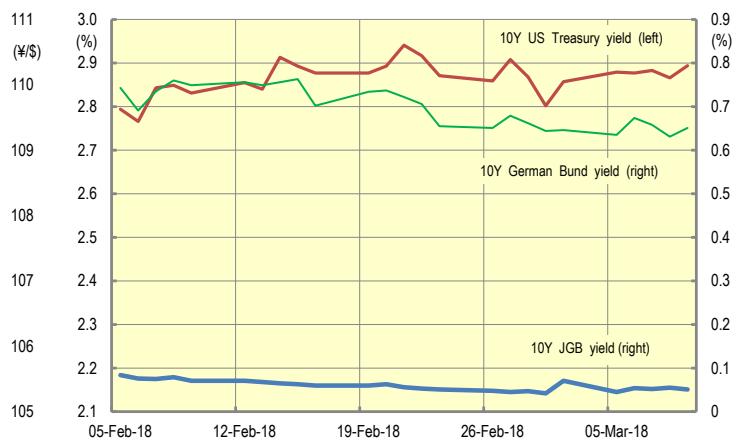
When the EU suggested it would impose retaliatory tariffs, President Trump said he would consider further tariff retaliation, and concerns over US import tariffs drove the USD/JPY down to the mid-105 level. Germany's SPD party voted in favor of a grand alliance, but in Italy's general election the Five-Star Movement and its allies increased their number of seats in the legislature, and uncertainty over the alliance weakened the euro. A suspension of production at Libya's largest oilfield pushed oil prices higher, while overseas interest rates and share prices rose, weakening the yen. South Korea's announcement on March 6 that North Korea wanted talks with the US over denuclearization led to a risk-on yen weakening. On March 7 Gary Cohn resigned from his post as Director of the US National Economic Council in opposition to the tariffs, leading to a risk-off yen appreciation. When the White House Press Secretary indicated on March 8 that Canada and Mexico may be exempted from the tariffs, the yen weakened and the dollar strengthened. The euro declined on a downward revision of the inflation outlook in response to the ECB removing its accommodative bias. The US president announced he was ready to meet with North Korean leader Kim Jong-un by May, and expectations of an easing of US-North Korea tensions led to a weaker yen. The US nonfarm payroll number grew by more than the market expected in February, and the USD/JPY rose to 107.05 in step with a rise in US interest rates.

Chart: Forex Market: USD/JPY, EUR/USD



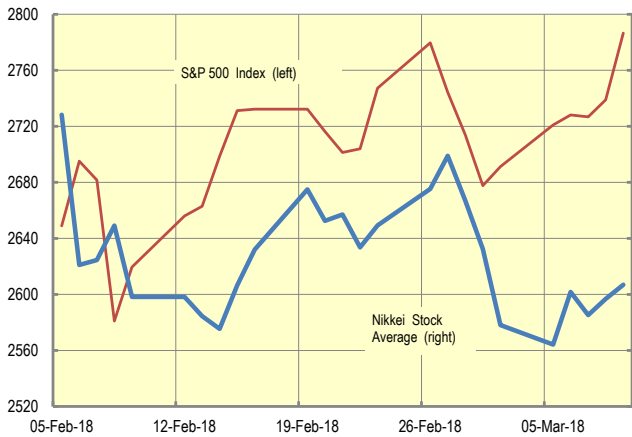
Source: Thomson Reuters; compiled by Daiwa Securities.

Chart: Bond Market: 10Y Sovereign Bond Yields in Japan, US, and Germany



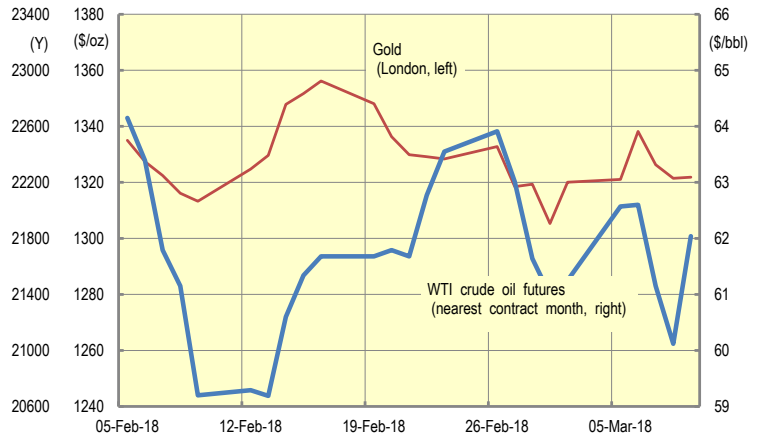
Source: Thomson Reuters; compiled by Daiwa Securities.

Chart: Stock Market: US S&P 500, Nikkei Stock Average



Source: Thomson Reuters; compiled by Daiwa Securities.

Chart: Commodity Market: Crude Oil Futures, Gold



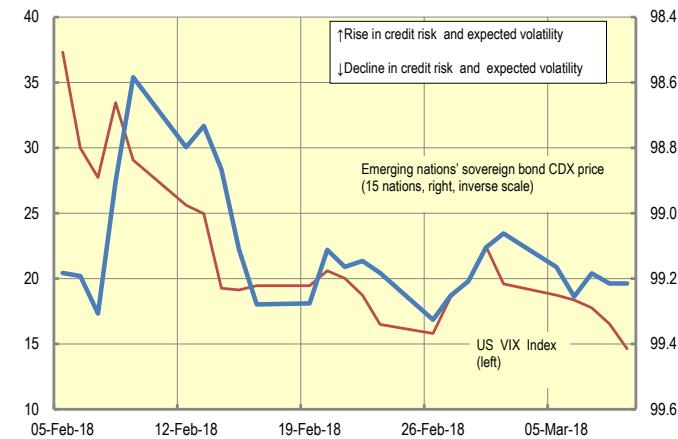
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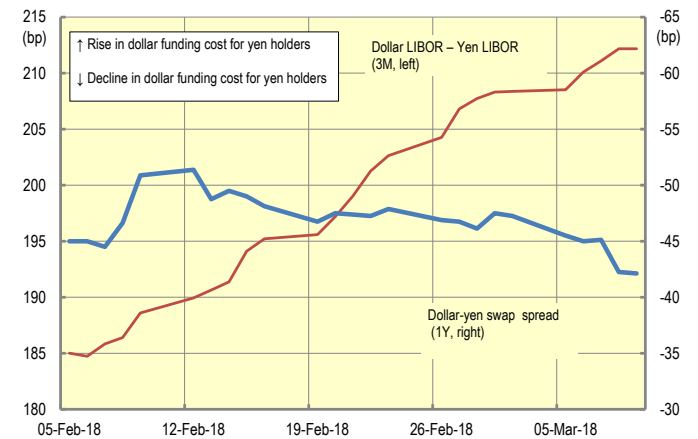
Canada and Mexico, now in the process of renegotiating NAFTA, as well as Australia, will be exempt from US import tariffs. There were reports of flexibility with the tariff rate for specific countries, and the US Treasury Secretary said an even larger number of countries may also get favorable treatment. Expectations that negative impacts on the economy would be limited softened the dollar weakening/yen strengthening trend. The US Commerce Secretary said that US import restrictions would be applied to exports from China coming through third countries, and the primary target seems to be China. The US president also indicated plans to impose a reciprocal tax on trading partners that match their tariffs, and pressure to correct unfair trade practices, with China at the forefront, is a potential dollar-weakening factor.

Chart: US VIX index and Emerging Market CDS



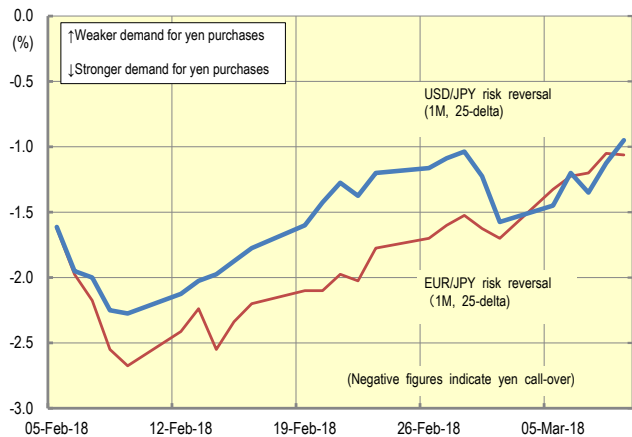
Source: Thomson Reuters; compiled by Daiwa Securities.

Chart: LIBOR Gap and Currency Swap Spread



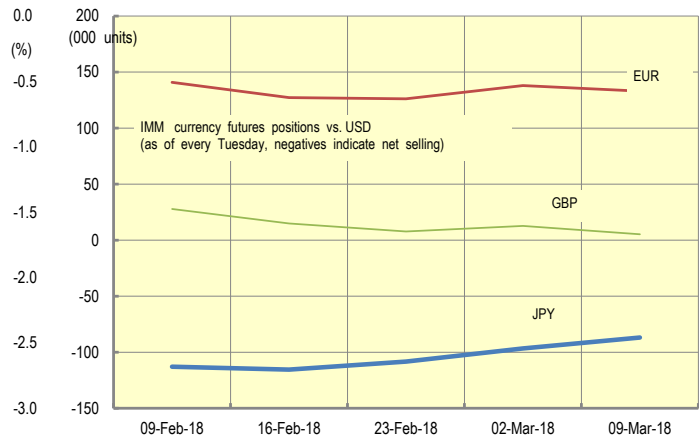
Source: Thomson Reuters; compiled by Daiwa Securities.

Chart: Risk Reversal on Currency Options



Source: Thomson Reuters; compiled by Daiwa Securities.

Chart: Net Position of Currency Futures



Source: Thomson Reuters; compiled by Daiwa Securities.

US economic data's impact on the dollar's value

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The US announces its February CPI on March 13. The y/y change in January was +0.5% for the CPI and +0.3% for the core CPI. This was more than the market expected, strengthened rate hike expectations, and pushed the 10Y Treasury yield above 2.9%. The market forecasts for m/m (y/y) changes in February are +0.2% (+2.2%) for the CPI and +0.2% (+1.8%) for the core CPI. Comparing February this year with February 2017, the dollar's effective exchange rate is rising like it did last year, but the decline in the commodity index is larger this year than last year, while gas prices declined last year and are rising this year. The ISM manufacturing price index declined last February and rose in February this year, while the nonmanufacturing price index declined in both months. The CPI looks likely to come in as the market forecast, but we see more upside risks than downside risks, and think it will be either neutral or impart an upward bias to both US interest rates and the dollar. If the rise in US interest rates comes more from inflation expectations than sentiment, however, it would subdue the dollar's rise while making a risk-off yen appreciation more likely, thereby limiting the increase in the USD/JPY.

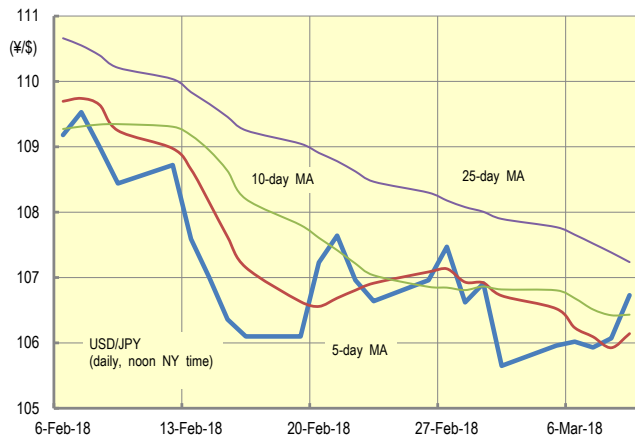
The February retail sales data for the US is set to be released on March 14. In January, in part because of the cold wave that blanketed the US, growth in private consumption fell below growth in income (the propensity to consume declined), and retail sales declined 0.3% m/m, falling short of the market's expected 0.2% increase. The market expects February retail sales to increase 0.3% m/m. The decline in US stocks has had a negative impact on consumer sentiment and private consumption, but because impacts from the cold wave are wearing off and auto sales volume was flat in m/m terms, we think retail sales growth is likely to recover into positive territory as the market expects. This would probably be neutral for US interest rates and the dollar.

The New York Fed and Philadelphia Fed will be announcing their March manufacturing surveys on March 15. The US ISM manufacturing indices for February showed a second consecutive month of decline for both new orders and production and a third consecutive month of growth for inventories. A worsening of the March manufacturing surveys may have a downward impact on US interest rates and the dollar.

Noteworthy currency: SEK

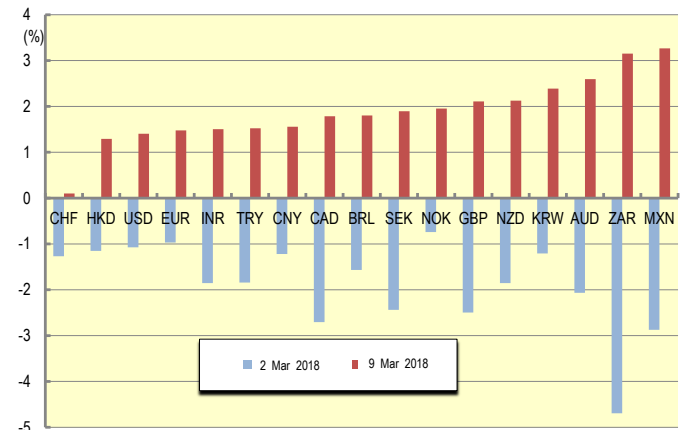
Sweden plans to announce its February CPI on March 14. The inflation rate has recently been running below the 2% target, and the Riksbank decided at its February policy meeting only to push back the timing of its rate hike from mid-2018 to 2H 2018. If inflation does not rise toward 2%, it will probably weaken the market's rate hike expectations and cause the Swedish krona (SEK) to depreciate.

Chart: USD/JPY and Moving Average



Source: Thomson Reuters; compiled by Daiwa Securities.

Chart: Weekly Currency Performance (vs. yen)



Source: Thomson Reuters; compiled by Daiwa Securities.

Chart: Weekly Schedule for Major Economic Indicators/events

- 12-Mar ● Eurozone finance ministers meeting
- 13-Mar ● Feb US CPI
● Pennsylvania's congressional district special election in US
- 14-Mar ○ Minutes of BOJ MPM (22-23 Jan)
● Feb US retail sales, PPI
- 15-Mar ○ Oct-Dec NZ GDP
○ MPM at Switzerland's central bank
● Mar NY Fed's Empire State Manufacturing Index
● Mar Philadelphia Fed's Business Outlook Survey Index
- 16-Mar ● Feb US housing starts
● Feb US industrial production, capacity utilization rate
● Mar US University of Michigan's Consumer Sentiment Index
- 18-Mar ● Russian presidential election

Source: Compiled by Daiwa Securities.

Notes: Dates based on JST. ○ indicates monetary policy-related and ● denotes political events.

Chart: Weekly Forex Forecasts

	5-9 Mar 2018 (actual)		12-16 Mar 2018 (forecasts)	
	Range	Weekend	Range	Weekend
USD/JPY	105.3-107.1	106.8	105.7-107.7	106.6
EUR/JPY	129.3-132.1	131.4	130.0-133.0	131.2
EUR/USD	1.226-1.245	1.231	1.222-1.242	1.231

Noteworthy currencies and factors

SEK	If CPI continues to fail to reach target, SEK would weaken
BRL	Negotiations to be exempt from US steel/aluminum tariffs attracting attention
TRY	If US steel/aluminum tariffs are applied, TRY would weaken
CNY	Japan, US, and Europe agreed to cope with unfair trade practices, which would put pressure on China

Source: Compiled by Daiwa Securities.

IMPORTANT

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If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

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