

# Forex Market Weekly

## Upward pressure on yen from US/China trade war, downward pressure possible if EU cuts car tariff

- Despite upward pressure from US/China trade spat, yen soft on EU car tariff cut hopes
- Upward pressure on yen as risk appetite hurt by fears of more US tariffs
- Downward pressure on yen from hopes for reduced EU tariffs on car imports

This week's USD/JPY forecast range

**9 - 13 Jul: Y109.0 – 111.0/\$ (Y110.5 at end-previous week)**

Forex Market View DSFE160  
FICC Research Dept.

Chief FX Analyst  
**Yuji Kameoka**  
(81) 3 5555-8764  
yuji.kameoka@daiwa.co.jp

FX Analyst  
**Mayu Shinooka**  
(81) 3 5555-8777  
mayu.shinooka@daiwa.co.jp  
Daiwa Securities Co. Ltd.

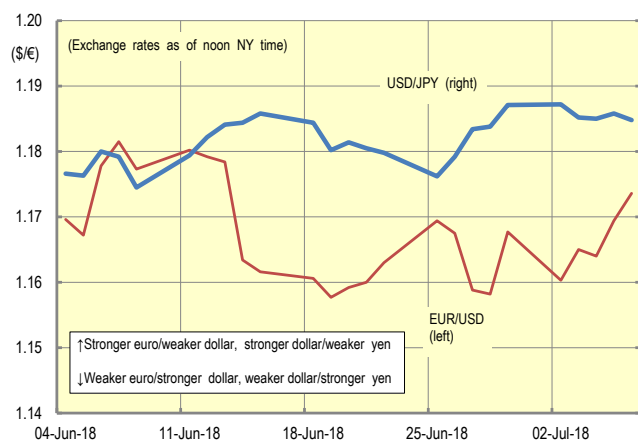


### Overview of last week's forex market

### Upward pressure on yen from US/China trade war, downward pressure possible if EU cuts car tariff

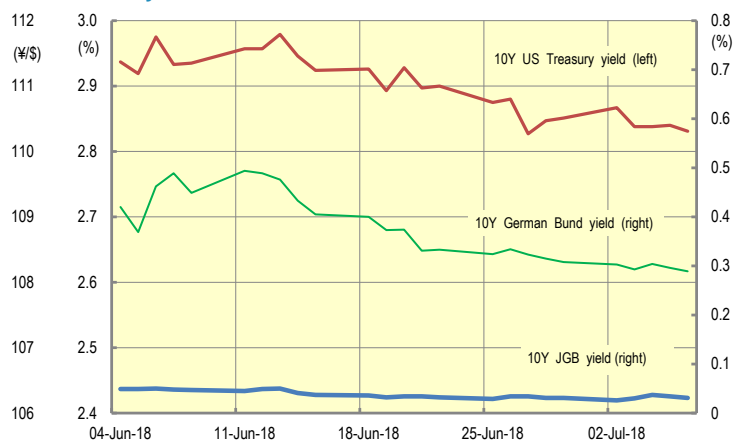
The USD/JPY started the week on a solid note, possibly on hopes additional US tariffs on Chinese goods could be avoided with China's commerce minister saying that access to China's markets would be significantly expanded. Upward pressure was applied to the yen as investors lost their appetite for risk with Japanese equities pulled even lower by declines for both the yuan and Chinese stock markets. Still, the USD/JPY briefly rose to 111.14 on (1) US interest rates rising after the Institute for Supply Management's manufacturing PMI for June grew and (2) Germany's Christian Social Union and Christian Democratic Union parties reaching an agreement on immigration policy that eased concerns about an unraveling of the coalition government. The dollar then weakened against the yen, possibly due to dollar-selling by major Chinese state-owned banks to prop up the yuan. A court ruling in China barring US memory chip giant Micron from selling some products in China due to a patent dispute came just one day after US President Donald Trump said that China Mobile should not be allowed to enter the US telecom market on national security grounds. This growing discord between the world's two largest economies pushed the USD/JPY down to 110.27. The yen then weakened on a stronger euro and improved risk appetite amid the possibility that the US could scrap its planned tariffs on cars imported from the EU if the EU abolishes tariffs on imports of US cars. Forex markets were not particularly volatile, even with the US imposing additional tariffs on Chinese goods and China responding with retaliatory tariffs on US goods. The dollar trended lower following the release of June US employment data.

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



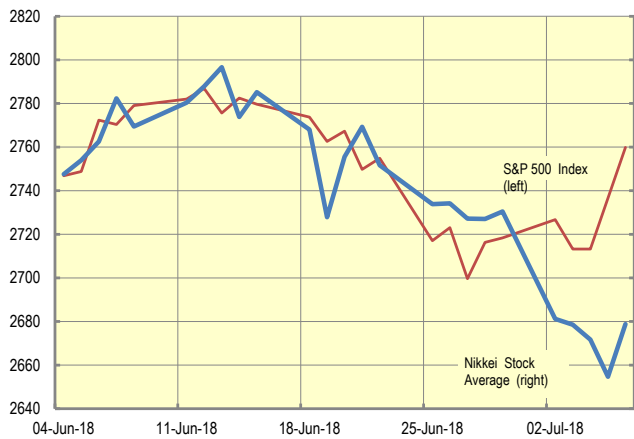
Source: Thomson Reuters; compiled by Daiwa Securities.

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



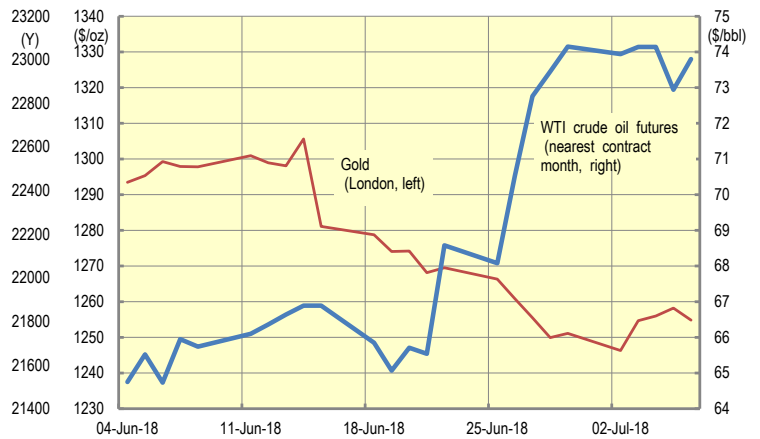
Source: Thomson Reuters; compiled by Daiwa Securities.

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



Source: Thomson Reuters; compiled by Daiwa Securities.

**Chart: Commodity Market: Crude Oil Futures, Gold**



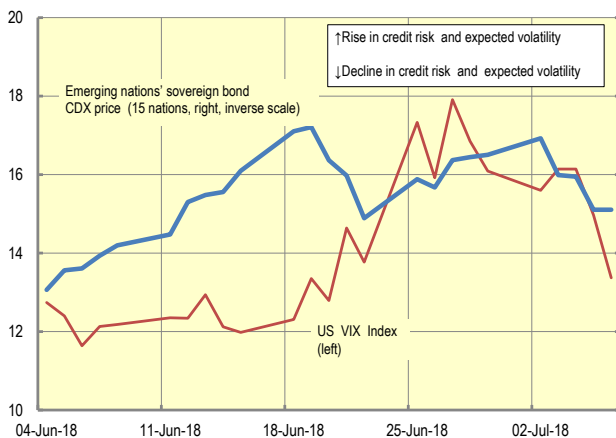
Source: Thomson Reuters; compiled by Daiwa Securities.

**Concerns of further US tariffs puts upward pressure on yen**

**Upward pressure on yen as risk appetite hurt by fears of more US tariffs**

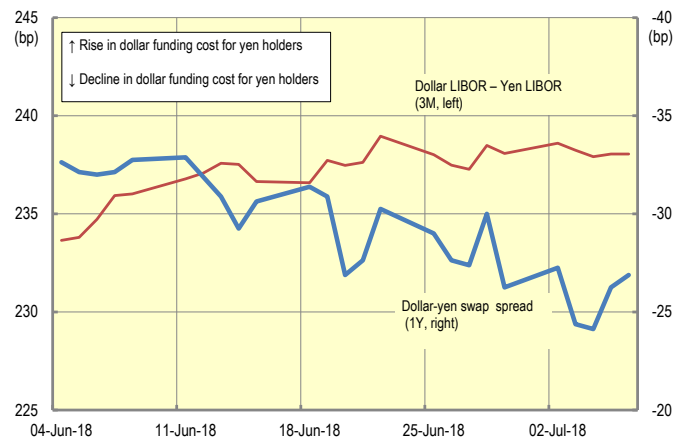
On 6 July, the US followed through on its threat and imposed additional 25% tariffs on \$34.0bn worth of Chinese imports. A risk-off mood among investors did not necessarily intensify as this action was largely priced in. However, there is the strong possibility that the US will impose additional tariffs on Chinese goods. Indeed, Trump warned that another \$16.0bn in tariffs would take effect after two weeks, which could be followed by additional rounds of tariffs worth \$200.0bn and then \$300.0bn. There are now apparently concerns that the US could apply additional tariffs on all goods and services imported from China. We note that in 2017 the US imported \$505.4bn worth of Chinese goods (\$523.7bn when combining imported goods + services). Imposing additional tariffs on all Chinese imports seems unrealistic considering the sizable impact such a move would have on the US economy. Still, concerns about a global economic slowdown due to US tariffs are likely to persist until China makes sufficient progress opening its markets and safeguarding the intellectual property rights of other countries. Such concerns will likely hurt investor appetite for risk and apply upward pressure on the yen.

**Chart: US VIX Index and Emerging Market CDS**



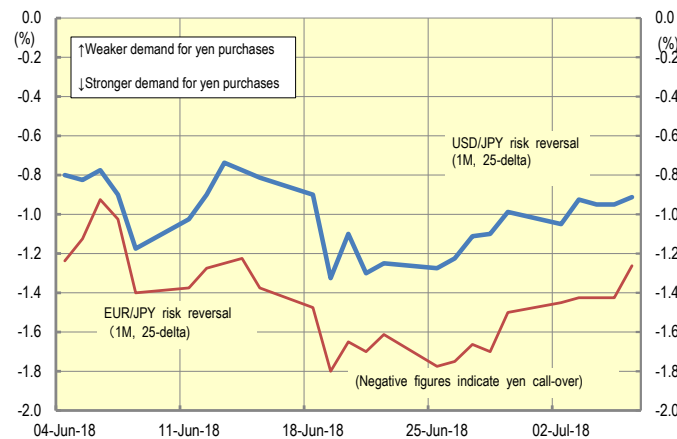
Source: Thomson Reuters; compiled by Daiwa Securities.

**Chart: LIBOR Gap and Currency Swap Spread**



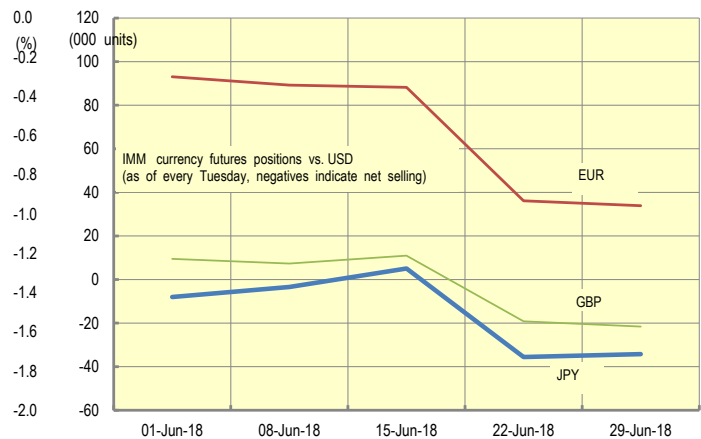
Source: Thomson Reuters; compiled by Daiwa Securities.

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 warns of additional 20% tariff on cars imported from EU

### Downward pressure on yen from hopes for reduced EU tariffs on car imports

After threatening on 22 June to slap a 20% tariff on imports of cars produced in the EU, Trump said on 29 June that a government study into such tariffs would likely wrap up in three to four weeks (by 20-27 July). The US is unhappy with the 10% tariff the EU imposes on American car imports, when the US tariff on car imports from the EU is only 2.5%. In 2017 the US imported \$360.7bn in cars and car parts (passenger vehicles: \$176.0bn, trucks/buses/special-purpose vehicle: \$36.5bn, parts: \$148.1bn). Car imports (excl. parts) from the EU to the US came to \$43.6bn (\$20.9bn from Germany, \$9.1bn from England, \$4.9bn from Italy, \$2.2bn from Sweden). Cars exported from America to the EU for that year came to \$7.2bn. In terms of scale, it is hard to image the US imposing additional tariffs on the more than \$200.0bn worth of total vehicle imports, but additional tariffs on just those cars coming from the EU (worth just over \$40.0bn) is probably possible.

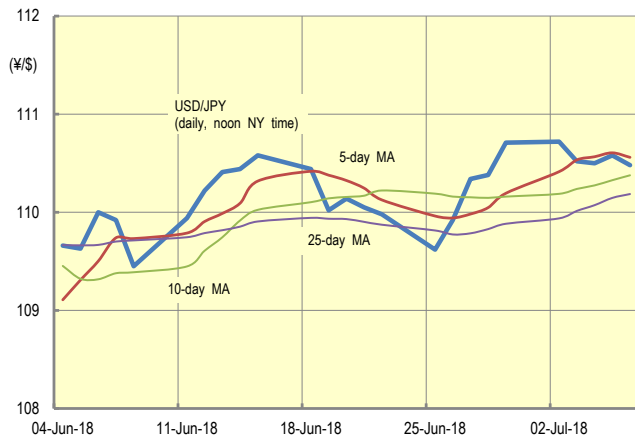
### Downward pressure on yen from hopes for reduced EU tariffs on car imports

However, Trump said that these tariffs would not apply to cars produced by foreign automakers at plants in the US. Meanwhile, the US ambassador to Germany said Trump could suspend his threat to impose tariffs on cars imported from the EU if duties on US cars shipped to the EU were abolished. The US would prefer lower EU tariffs on US-made cars than imposing higher US tariffs on EU-made cars. The EU would probably be well-advised to lower its tariffs on US car imports from 10% to no more than 2.5% (same level as tariff US applies to cars imported from EU) to avoid the additional 20% tariff on EU cars that the US has threatened to impose. German Chancellor Angela Merkel indicated a willingness to lower tariffs on US car imports and investors regained their appetite for risk amid expectations that reduced EU car tariffs would have a positive impact on the global economy. These factors placed downward pressure on the yen. If the EU does in fact lower its tariffs on car imports from not only the US, but other countries as well, this yen-lowering effect would likely increase.

### Noteworthy currency: GBP

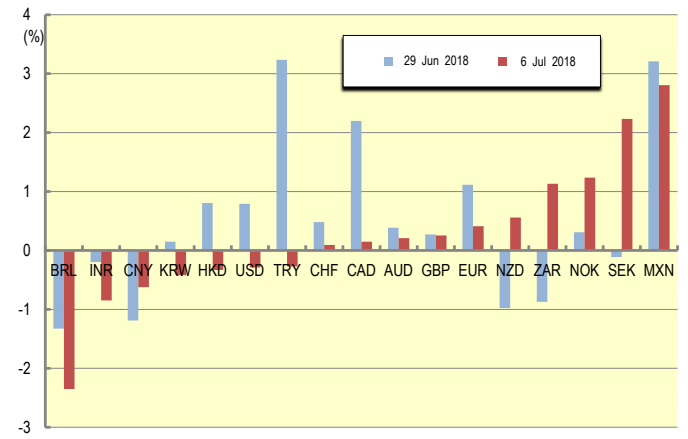
In the UK, industrial production data for May is due out on 10 July. The market consensus is for a 0.5% MoM gain after a 0.8% decline in April. The market also expects UK manufacturing output to increase 0.7% in May from a 1.4% decline in April. With expectations for a rate hike in August increasing following the Bank of England's June monetary policy committee meeting, any indicators pointing to an economic recovery will likely lift the GBP. On the other hand, if 2Q indicators fare poorly, the BoE could find an August rate hike decision more difficult. Expectations for a rate hike could also recede if indicators undershoot expectations, which would probably result in a pullback for the GBP.

**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**

- 9-Jul May German trade statistics
- 10-Jul Jun China CPI
- Jun German ZEW Indicator of Economic Sentiment
- 11-Jul Jun US producer price index
- 12-Jul May eurozone industrial production
- Jun US CPI
- 13-Jul Jun China trade statistics
- Jul US University of Michigan's Consumer Sentiment Index (preliminary)
- EU finance ministers meeting
- 15-Jul Final day of 2018 FIFA World Cup

Source; Compiled by Daiwa Securities.

Notes: Dates based on JST. ● indicates political events.

**Chart: Weekly Forex Forecasts, Noteworthy Currencies/factors**

	2 - 6 Jul 2018 (actual)		9 - 13 Jul 2018 (forecasts)	
	Range	Weekend	Range	Weekend
USD/JPY	110.2-111.2	110.5	109.0-111.0	110.0
EUR/JPY	128.4-130.0	129.7	127.5-130.5	128.9
EUR/USD	1.158-1.177	1.175	1.160-1.180	1.172

Noteworthy Currencies and factors

GBP	Once production recovers, stronger expectations for Aug rate hike would lead to currency appreciation
CNY	Key is whether PBOC will resume inducing depreciation of yuan following US tariff imposition

Source; Compiled by Daiwa Securities.

## Explanatory Document of Unregistered Credit Ratings

In order to ensure the fairness and transparency in the markets, Credit Rating Agencies became subject to the Credit Rating Agencies' registration system based on the Financial Instruments and Exchange Act. In accordance with this Act, in soliciting customers, Financial Instruments Business Operators, etc. shall not use the credit ratings provided by unregistered Credit Rating Agencies without informing customers of the fact that those Credit Rating Agencies are not registered, and shall also inform customers of the significance and limitations of credit ratings, etc.

### ■ The Significance of Registration

Registered Credit Rating Agencies are subject to the following regulations:

- 1) Duty of good faith.
- 2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, etc.).
- 3) Prohibition of the ratings in cases where Credit Rating Agencies have a close relationship with the issuers of the financial instruments to be rated, etc.
- 4) Duty to disclose information (preparation and publication of rating policies, etc. and public disclosure of explanatory documents).

In addition to the above, Registered Credit Rating Agencies are subject to the supervision of the Financial Services Agency ("FSA"), and as such may be ordered to produce reports, be subject to on-site inspection, and be ordered to improve business operations, whereas unregistered Credit Rating Agencies are free from such regulations and supervision.

### ■ Credit Rating Agencies

#### [Standard & Poor's]

##### The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: S&P Global Ratings ("Standard & Poor's")

The name and registration number of the Registered Credit Rating Agency in the group: S&P Global Ratings Japan Inc. (FSA commissioner (Rating) No.5)

##### How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Unregistered Rating Information" (<http://www.standardandpoors.co.jp/unregistered>) in the "Library and Regulations" section on the website of S&P Global Ratings Japan Inc. (<http://www.standardandpoors.co.jp>)

##### Assumptions, Significance and Limitations of Credit Ratings

Credit ratings assigned by Standard & Poor's are statements of opinion on the future credit quality of specific issuers or issues as of the date they are expressed and they are not indexes which show the probability of the occurrence of the failure to pay by the issuer or a specific debt and do not guarantee creditworthiness. Credit ratings are not a recommendation to purchase, sell or hold any securities, or a statement of market liquidity or prices in the secondary market of any issues.

Credit ratings may change depending on various factors, including issuers' performance, changes in external environment, performance of underlying assets, creditworthiness of counterparties and others. Standard & Poor's conducts rating analysis based on information it believes to be provided by the reliable source and assigns credit ratings only when it believes there is enough information in terms of quality and quantity to make a conclusion. However, Standard & Poor's does not perform an audit, due diligence or independent verification of any information it receives from the issuer or a third party, or guarantee its accuracy, completeness or timeliness of the results by using the information. Moreover, it needs to be noted that it may incur a potential risk due to the limitation of the historical data that are available for use depending on the rating.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of March 7th, 2017, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of S&P Global Ratings Japan Inc. (<http://www.standardandpoors.co.jp>)

#### [Moody's]

##### The Name of the Credit Rating Agencies Group, etc

The name of the Credit Rating Agencies group: Moody's Investors Service ("MIS")

The name and registration number of the Registered Credit Rating Agency in the group: Moody's Japan K.K. (FSA commissioner (Rating) No.2)

##### How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Unregistered Rating explanation" in the section on "The use of Ratings of Unregistered Agencies" on the website of Moody's Japan K.K. (The website can be viewed after clicking on "Credit Rating Business" on the Japanese version of Moody's website ([https://www.moody.com/pages/default\\_ja.aspx](https://www.moody.com/pages/default_ja.aspx)))

##### Assumptions, Significance and Limitations of Credit Ratings

Credit ratings are Moody's Investors Service ("MIS") current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. MIS defines credit risk as the risk that an entity may not meet its contractual, financial obligations as they come due and any estimated financial loss in the event of default. Credit ratings do not address any other risk, including but not limited to: liquidity risk, market value risk, or price volatility. Credit ratings do not constitute investment or financial advice, and credit ratings are not recommendations to purchase, sell, or hold particular securities. No warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such rating or other opinion or information, is given or made by MIS in any form or manner whatsoever.

Based on the information received from issuers or from public sources, the credit risks of the issuers or obligations are assessed. MIS adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MIS considers to be reliable. However, MIS is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of April 16<sup>th</sup>, 2018, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of Moody's Japan K.K. ([https://www.moody.com/pages/default\\_ja.aspx](https://www.moody.com/pages/default_ja.aspx))

#### [Fitch]

##### The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: Fitch Ratings ("Fitch")

The name and registration number of the Registered Credit Rating Agency in the group: Fitch Ratings Japan Limited (FSA commissioner (Rating) No.7)

##### How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Outline of Rating Policies" in the section of "Regulatory Affairs" on the website of Fitch Ratings Japan Limited (<https://www.fitchratings.co.jp/web/>)

##### Assumptions, Significance and Limitations of Credit Ratings

Ratings assigned by Fitch are opinions based on established criteria and methodologies. Ratings are not facts, and therefore cannot be described as being "accurate" or "inaccurate". Credit ratings do not directly address any risk other than credit risk. Credit ratings do not comment on the adequacy of market price or market liquidity for rated instruments. Ratings are relative measures of risk; as a result, the assignment of ratings in the same category to entities and obligations may not fully reflect small differences in the degrees of risk. Credit ratings, as opinions on relative ranking of vulnerability to default, do not imply or convey a specific statistical probability of default.

In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The assignment of a rating to any issuer or any security should not be viewed as a guarantee of the accuracy, completeness, or timeliness of the information relied on in connection with the rating or the results obtained from the use of such information. If any such information should turn out to contain misrepresentations or to be otherwise misleading, the rating associated with that information may not be appropriate. Despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

For the details of assumption, purpose and restriction of credit ratings, please refer to "Definitions of ratings and other forms of opinion" on the website of Fitch Rating Japan Limited.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of May 13<sup>th</sup>, 2016, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of Fitch Rating Japan Limited (<https://www.fitchratings.co.jp/web/>)

**IMPORTANT**

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

**Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law**

If you decide to enter into a business arrangement with our company based on the information described in materials presented along with this cover letter, 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.

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.

Corporate Name: Daiwa Securities Co. Ltd.

Financial instruments firm: chief of Kanto Local Finance Bureau  
(Kin-sho) No.108

Memberships: Japan Securities Dealers Association

The Financial Futures Association of Japan

Japan Investment Advisers Association

Type II Financial Instruments Firms Association