

Forex Market Weekly

US economic indicators could support USD/JPY

- Pound down on Brexit woes; USD/JPY up on US/China trade talk hopes
- Brexit problems continue, outlook as clouded as ever
- This week's forex outlook: US economic indicators could support USD/JPY

This week's USD/JPY forecast range

1 - 5 Apr: Y110.0 – 111.5/\$ (Y110.8 at end-previous week)

Forex Market View DSFE224
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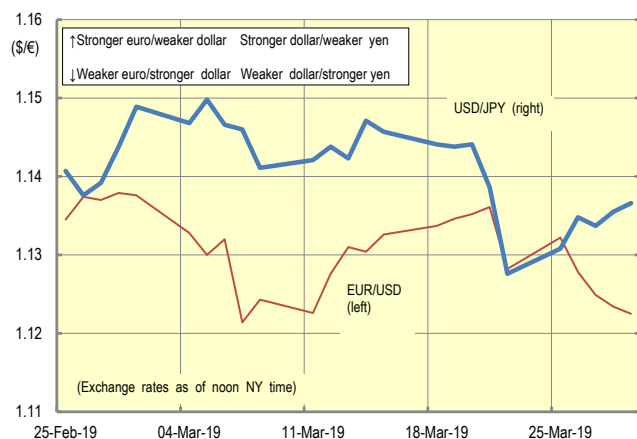


Overview of last week's forex market

Pound down on Brexit woes; USD/JPY up on US/China trade talk hopes

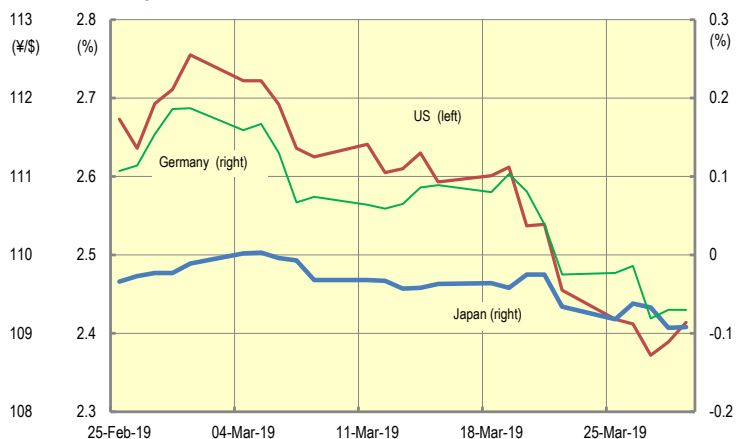
Last week Special Counsel Robert Mueller completed his report on the Trump-Russia investigation, which found no evidence that US President Donald Trump conspired with Russia to influence the 2016 presidential election. However, the USD/JPY still dropped to 109.71, possibly on declines for Chinese equities following reports China is refusing to concede to US demands for relaxed restrictions on US tech firms. US interest rates fell and weighed on the USD/JPY after former US Federal Reserve Chairperson Janet Yellen said the US Treasury yield curve may signal the need to cut US interest rates. The British pound appreciated and the USD/JPY rose on reports British Prime Minister Theresa May was considering another vote on her government's Brexit plan on March 28 with some pro-Brexit Parliament members suggesting they would support the measure. The USD/JPY fell back with interest rates in both the US and Europe falling after European Central Bank President Mario Draghi said the ECB could further delay a planned interest rate hike if needed. The pound fell sharply and the USD/JPY dropped to near 110.0 after Britain's House of Commons rejected eight different alternative proposals on Britain's withdrawal from the EU. The USD/JPY rebounded on reports US/China trade talks were gaining some traction. Indeed, the pair rose to 110.95 after US National Economic Council (NEC) Director Larry Kudlow suggested that some China tariffs could be lifted. The pound briefly dropped to USD1.3 after May's Brexit plan was rejected for a third time.

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



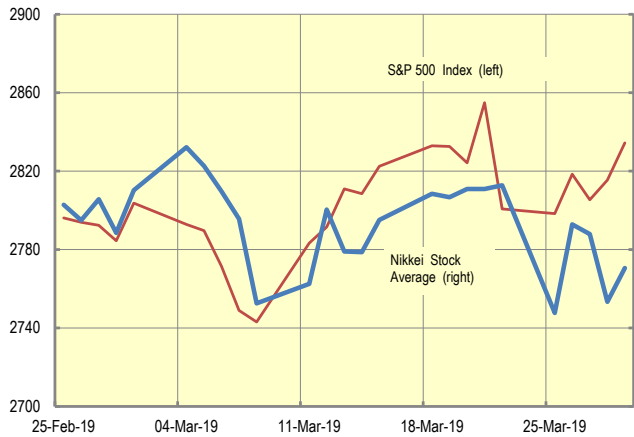
Source: Thomson Reuters; compiled by Daiwa Securities.

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



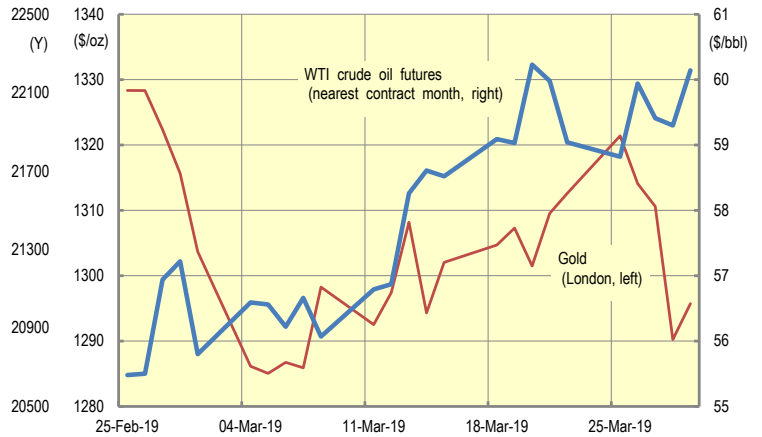
Source: Thomson Reuters; compiled by Daiwa Securities.

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



Source: Thomson Reuters; compiled by Daiwa Securities.

Chart: Commodity Market: Crude Oil Futures, Gold



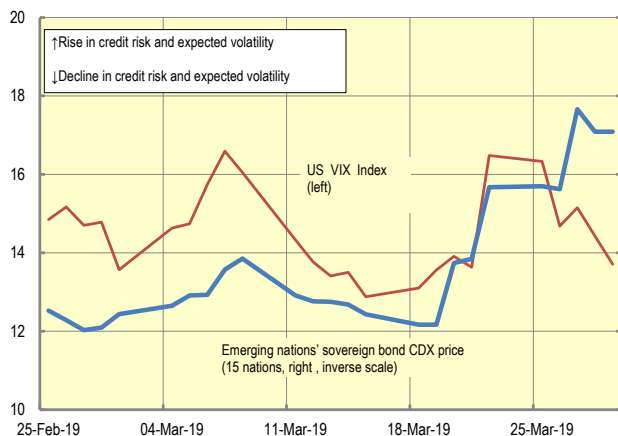
Source: Thomson Reuters; compiled by Daiwa Securities.

Eyes on British Parliament

Brexit problems continue, outlook as clouded as ever

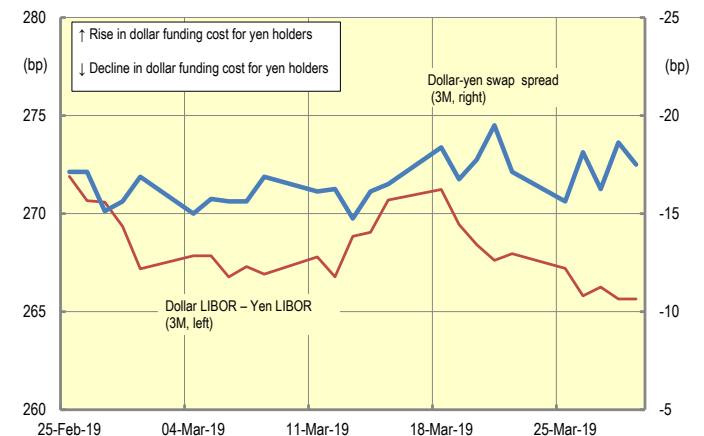
China is calling for the lifting of US tariffs, while the basic stance of the US is to keep these tariffs in place. However, the US NEC Director suggested last week that the US could lift some China tariffs. If the US were to compromise on China tariffs, the possibility of a trade agreement would increase, which would probably generate risk-on yen depreciation. At the same time, visibility regarding Britain's departure from the EU remains as clouded as ever, which has gradually produced risk-off pound depreciation (yen appreciation). The Brexit deal reached between the British government and the EU was again rejected by the British Parliament on 29 March. If Britain fails to produce a new plan and request a Brexit deadline extension by 12 April, a no-deal Brexit would become unavoidable. Members of Parliament voted against (1) leaving the EU with no deal (160 in favor 400 against), (2) holding another referendum on leaving the EU (268 to 295), and (3) remaining in the customs union (264 to 272). Parliament will vote again on Brexit alternatives on 1 April. Investor appetite for risk will likely increase if the government can move towards hammering out a new Brexit plan and extending the deadline for leaving the EU, assuming it wins Parliamentary support for either remaining in the customs union or holding a second referendum.

Chart: US VIX Index and CDX Emerging Markets Index



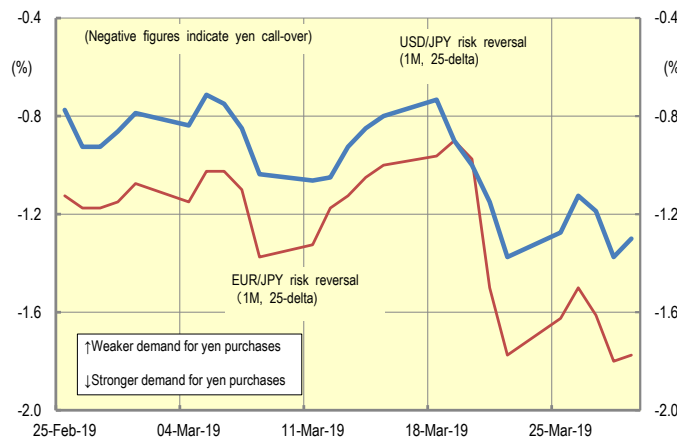
Source: Thomson Reuters; compiled by Daiwa Securities.

Chart: LIBOR Gap and Currency Swap Spread



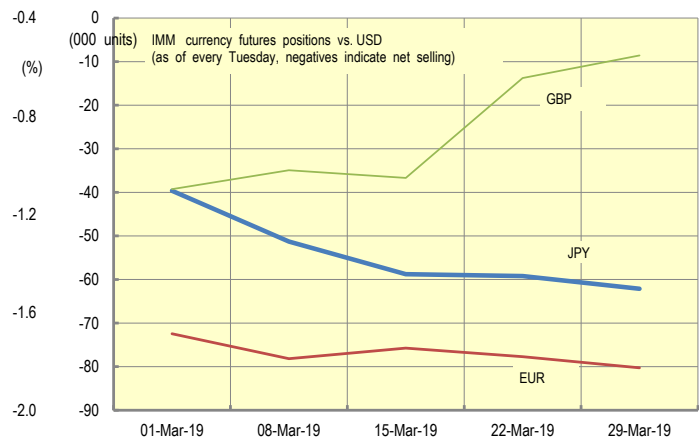
Source: Thomson Reuters; compiled by Daiwa Securities.

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.

Yen appreciation likely held in check

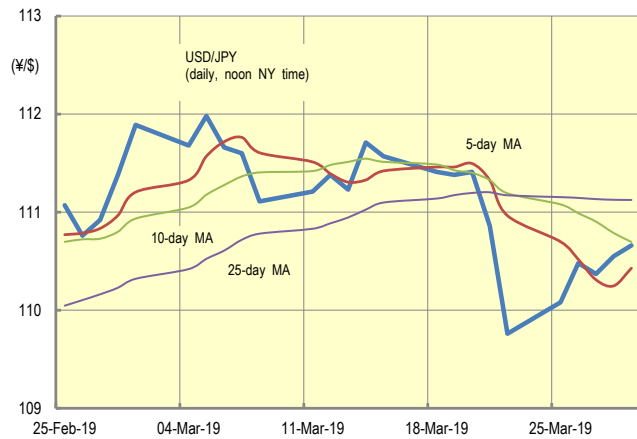
This week's forex outlook: US economic indicators could support USD/JPY

We anticipate a firm tone for the USD/JPY this week based on US/China economic indicators. First, Chinese indicators could support yen appreciation. There is apparently a strong risk that the Caixin manufacturing PMI for March, due out on 1 April, could miss the market consensus of 49.9 (same as in February). This is because the Caixin manufacturing PMI for February improved meaningfully in contrast to China's National Bureau of Statistics' PMI despite a steep decline in exports that month, which would suggest a pullback for March PMI is very possible. A stronger yuan also hurts Chinese exports. However, PMI deterioration could be modest as gains for Chinese equities positively impact both corporate sentiment and demand. Then, US indicators could start to drive yen depreciation. There is a somewhat high risk that February US retail sales could beat the market consensus for a 0.3% m/m gain. This is because consumer sentiment has improved and Jan-Feb personal disposable income growth was pretty good. That said, we do not expect a meaningful increase in retail sales considering lackluster February US new car sales, factory orders, and other indicators. March US ISM manufacturing PMI is projected to land at 54.2, on par with the February reading, but we expect a modest overshoot of the market consensus. Indeed, we estimate a reading close to 55.0 based on manufacturing PMIs already released by various regional Federal Reserve banks. Meanwhile, March US ISM non-manufacturing index, due out on 3 April, will probably worsen on-month. However, yen appreciation should be held in check on expectations for an employment growth recovery in the US jobs report due out on 5 April.

Noteworthy currency: TRY

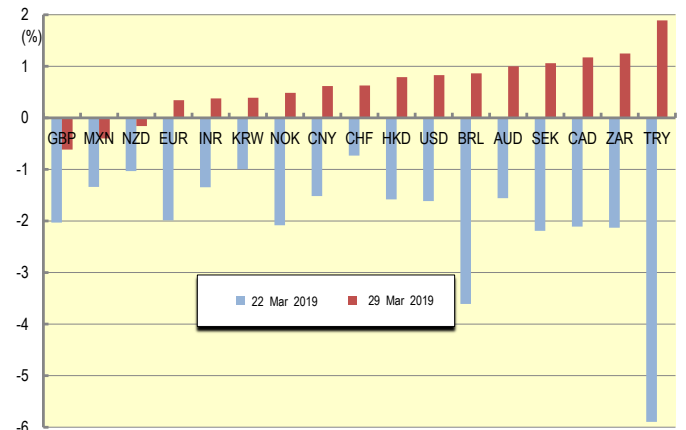
On 31 March, Turkey held municipal elections that were viewed by many as a referendum on the rule of President Recep Tayyip Erdogan. Overall, the ruling coalition apparently prevailed, but the opposition party candidate won the mayoral race for Turkey's capital Ankara, while the race in Istanbul, Turkey's largest city, remains tightly contested. There are growing concerns that the election results could elicit an authoritarian response from Erdogan. External relations are also worsening, particularly on the diplomatic front, with Turkey condemning the US for recognizing Israel's claim to sovereignty over the Golan Heights. Meanwhile, there is also some instability in Brazil owing to concerns about a pension reform law. We need to watch for depreciation of the Turkish lira as these conditions could easily lead to risk-off sentiment.

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

- 1-Apr Mar BOJ T ankan
 Mar China manufacturing PMI (Caixin)
 ● Japanese gov't to announce new era name
 Feb US retail sales
 Mar US ISM manufacturing index
- 2-Apr Feb eurozone unemployment rate
- 3-Apr Feb eurozone retail sales
 Mar US ADP national employment report
 Feb US durable goods orders
 Mar US ISM non-manufacturing index
- 4-Apr Feb German manufacturing sector orders
- 5-Apr Feb German industrial production
 Mar US jobs data

Source; Compiled by Daiwa Securities.

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

Chart: Weekly Forex Forecasts, Noteworthy Currencies/factors

	25 - 29 Mar 2019 (actual)		1 - 5 Apr 2019 (forecasts)	
	Range	End of week	Range	End of week
USD/JPY	109.7-111.0	110.8	110.0-111.5	110.8
EUR/JPY	123.6-125.1	124.3	123.2-125.7	124.5
EUR/USD	1.120-1.134	1.122	1.117-1.132	1.124

Noteworthy currencies and factors

TRY	Ruling parties may lose major cities in local elections; lira could weaken reflecting President's stance
BRL	Despite destabilization due to pension reform, real may be supported via intervention
AUD	Key is RBA's stance following dovish shift by Fed and ECB
GBP	If Brexit leans on long-term postponement, pound would strengthen; otherwise it would weaken

Source; Compiled by Daiwa Securities.

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■ Credit Rating Agencies

[Standard & Poor's]

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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)

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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>)

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[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)

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[Fitch]

The Name of the Credit Rating Agencies group, etc

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- 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.

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Corporate Name: Daiwa Securities Co. Ltd.

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

Memberships: Japan Securities Dealers Association

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