

# Forex Market Weekly

## Yen depreciation likely if agreement to delay Brexit reached

- Yen down on better US/China PMIs, trade talk hopes
- Risk-off sentiment if China tariff cuts by US disappoint
- This week's forex outlook: Yen depreciation likely if agreement to delay Brexit reached

### This week's USD/JPY forecast range

**8 - 12 Apr: Y110.7 – 112.2/\$ (Y111.7 at end-previous week)**

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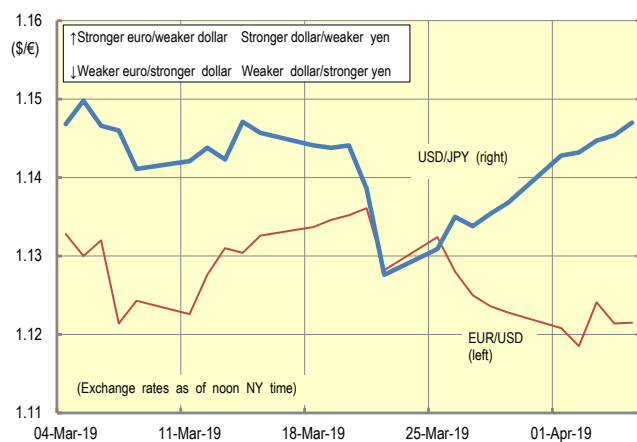


### Overview of last week's forex market

### Yen down on better US/China PMIs, trade talk hopes

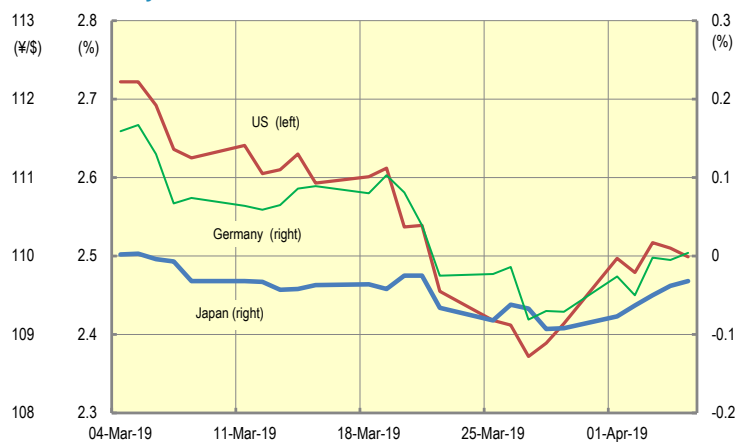
The USD/JPY rose at the start of last week after China's National Bureau of Statistics reported on March 31 that March manufacturing PMI topped 50 for the first time in four months (reading above 50 represents expansion). The Caixin manufacturing PMI for March was also better than expected, which contributed to risk-on yen depreciation. Even though the USD/JPY declined briefly on risk-on dollar depreciation, US interest rates and the dollar rose after the March US ISM manufacturing PMI beat expectations. The British pound lost ground after the British House of Commons again rejected a set of possible Brexit options through non-binding "indicative votes." The pound rebounded on reports British Prime Minister Theresa May (1) plans to ask the EU for another Brexit deadline extension and (2) wants to negotiate with the leader of the main opposition party in hopes of breaking the Brexit impasse. Risk-on yen depreciation emerged, mainly in yen cross trading against other currencies after the Financial Times reported that the US and China are drawing closer to a final trade agreement and that top US and Chinese officials have resolved most of the issues standing in the way of a trade deal. The euro declined and the pound pulled back after German factory orders for February fell sharply. The dollar strengthened as the number of Americans applying for unemployment benefits declined more than expected to the lowest level in 49 years and amid hopes for US/China trade talks. At one point the USD/JPY approached 111.80. March US non-farm payrolls were better than expected, but wage growth was weaker than anticipated, resulting in lower US interest rates and sluggishness for the USD/JPY.

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



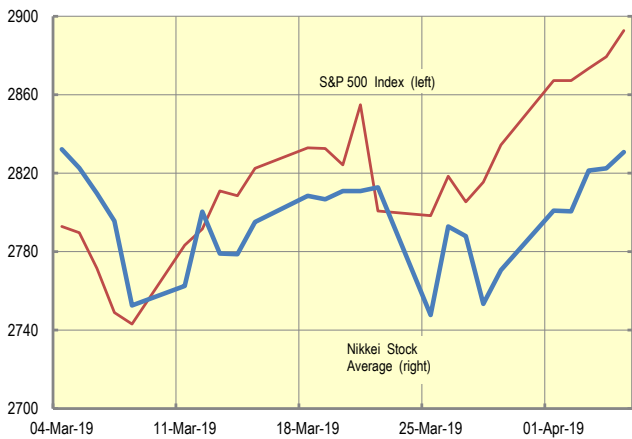
Source: Thomson Reuters; compiled by Daiwa Securities.

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



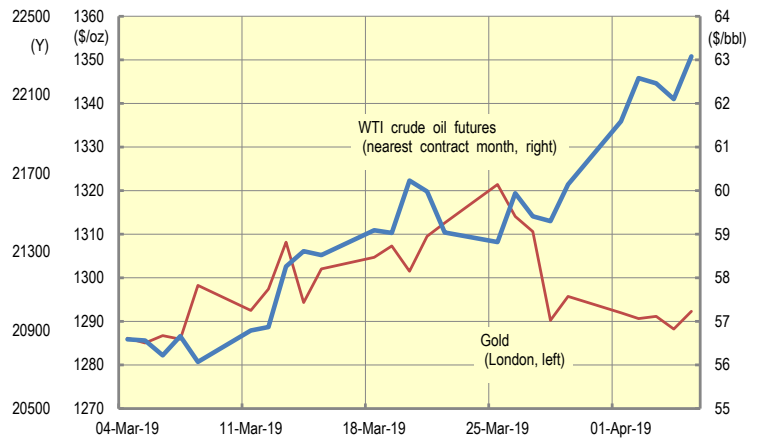
Source: Thomson Reuters; compiled by Daiwa Securities.

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



Source: Thomson Reuters; compiled by Daiwa Securities.

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



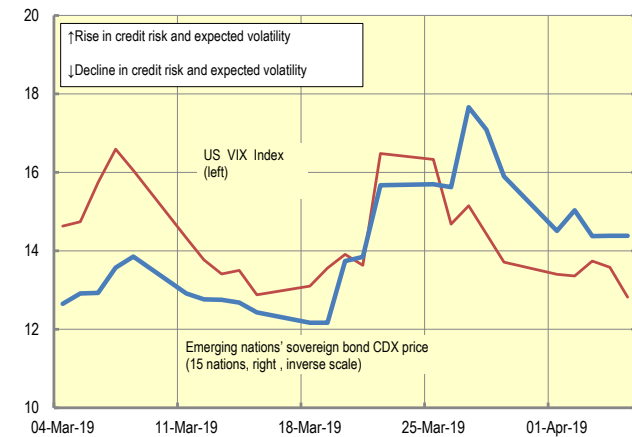
Source: Thomson Reuters; compiled by Daiwa Securities.

**Focus on binding and non-binding agreements**

**Risk-off sentiment if China tariff cuts by US disappoint**

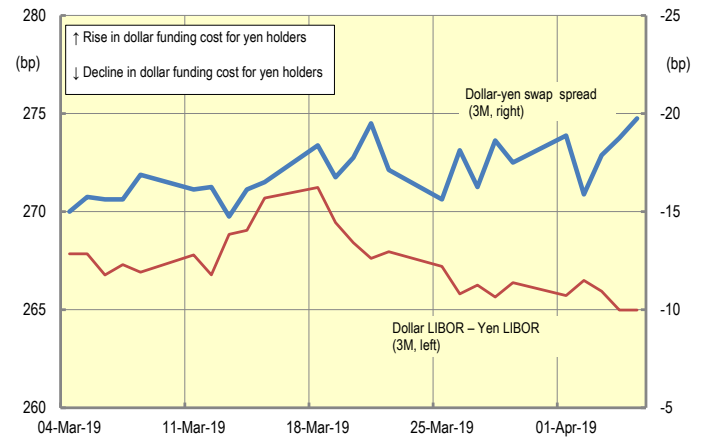
Bloomberg reported that details of the trade deal being worked out by the US and China would (1) give China until 2025 to increase its imports of US primary products such as soybeans and energy and (2) allow American companies doing business in China to set up wholly own companies there. The report added that these are binding agreements and the US can take retaliatory steps if China does not honor its commitments. Other non-binding promises that China has offered to implement by 2029 will not be subject to potential US retaliation if left unfulfilled. If under a new trade deal only a small portion of the trade agreements are binding, and if China is not required to fulfill its commitments until well into the future, the US could lower tariffs on only a very small portion of goods subject to the condition of China fulfilling its commitments, which would probably make investors risk adverse.

**Chart: US VIX Index and CDX Emerging Markets Index**



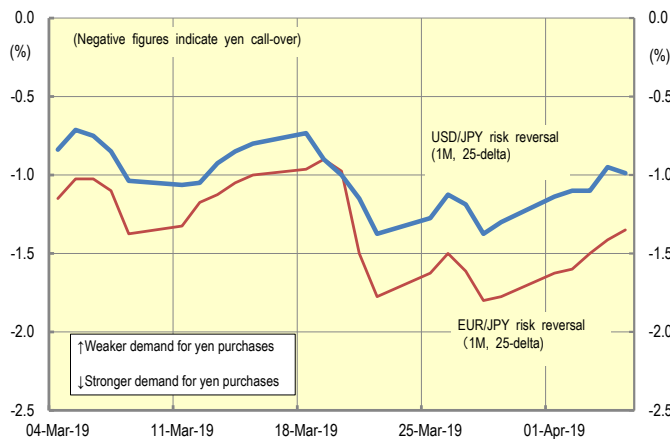
Source: Thomson Reuters; compiled by Daiwa Securities.

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



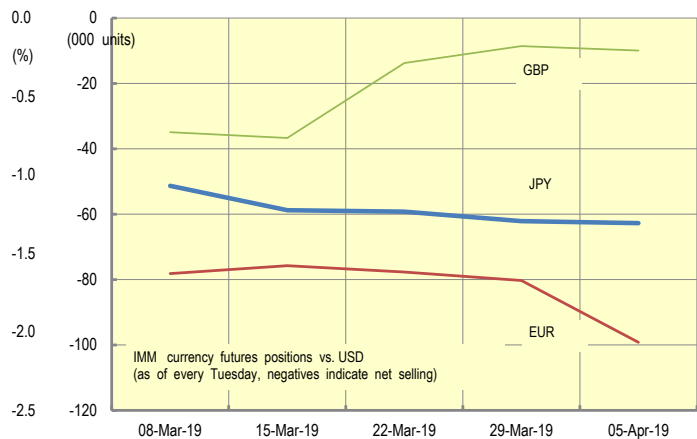
Source: Thomson Reuters; compiled by Daiwa Securities.

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.

### This week's forex outlook: Yen depreciation likely if agreement to delay Brexit reached

#### Still, prolonging of Brexit issue could limit risk-on sentiment

The April 12 deadline for Britain's departure from the EU is approaching, but Britain's Parliament remains unable to approve the government's Brexit plan. As such, May has asked the EU to push back the Brexit deadline until the end of June. She apparently requested an extension with the condition that Britain will leave the EU once the government's Brexit plan is approved by Parliament. The focus is now on whether the EU will accept May's request at its special April 10 Brexit summit. The EU will probably not easily accept this request, but rather there is a good chance it will propose a maximum extension of one year and require Britain to clarify its Brexit policy. In consideration of Brexit hardliners in Parliament who oppose a long-term deadline extension, May could ask for a short-term deadline extension with conditions. However, even in that case, there is the increased risk of a no-deal Brexit if Parliament still can not pass the Brexit plan within the deadline extension period. The EU will probably grow tired of endlessly waiting for Britain to reach some consensus on how to leave the EU. Indeed, France is basically opposed to another deadline extension. The EU will likely require Britain to provide a new plan and a reason for extending the deadline. Asking for more time to simply reach a compromise allowing for approval of the government's Brexit plan may not suffice. The EU may also require Britain to indicate other options in the event that approval of its Brexit plan still remains difficult. We would expect pound appreciation and yen depreciation if the EU agrees to a long-term Brexit delay, which could include the potential for another public referendum. However, concerns about a prolonging of the Brexit issue, even if a no-deal Brexit can be avoided, could limit any risk-on sentiment.

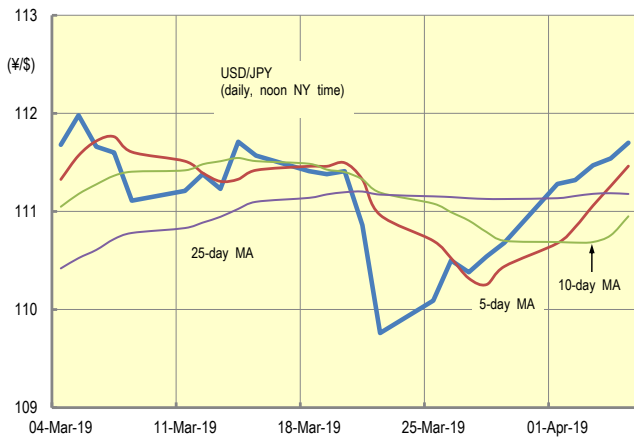
One key indicator due out this week is March Chinese exports. These exports plunged 20.8% y/y in February due in large part to calendar factors, but growth in March is expected (market consensus of around 7.3% growth). We would expect easing of concerns about a slowing Chinese economy and risk-on yen depreciation if the reading is close to this consensus or even better. Solid export growth in March seems likely due to an easy on-year comparison.

#### Noteworthy currency: EUR

The ECB's Governing Council will hold its next meeting on the same day as the EU's special Brexit summit. Focus points for the Governing Council meeting will likely include backgrounds for the March meeting decisions to keep key interest rates at their current levels through the end of 2019 and to launch a new series of quarterly targeted longer-term refinancing operations (TLTRO), as well as any discussions about the tiering of interest rates. The euro could easily adopt a downward bias considering weakening European economies (particularly Germany). Moreover, simply discussing the tiering of interest rates could bring to mind the ECB's abandonment of rate hikes and its prolonging of negative interest rates. However, the EU's special Brexit summit should have a much bigger impact than the ECB Governing Council meeting. As such, there is the real possibility that any

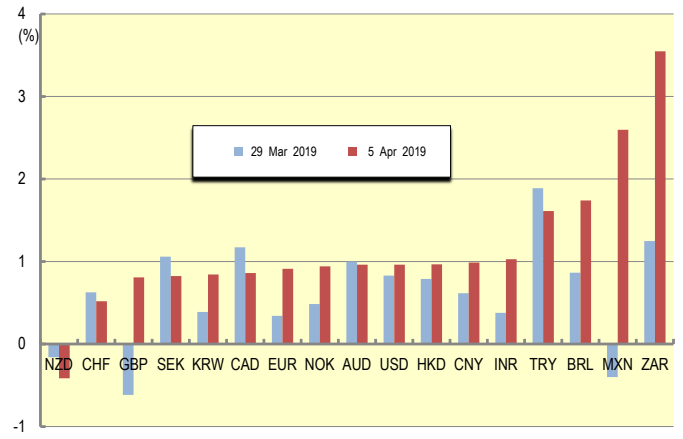
impact on the euro from the ECB meeting could be overwhelmed by impacts from the results of the EU's special summit.

**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**

- 8-Apr Feb German trade statistics  
Feb US manufacturing sector orders
- 9-Apr IMF to issue *World Economic Outlook*
- 10-Apr ○ ECB Governing Council meeting (president Draghi's press conference)  
Mar US CPI  
● Special EU summit meeting
- 11-Apr ○ Minutes of FOMC meeting (19-20 Mar)  
Mar China CPI  
Mar US PPI  
● G20 Finance Ministers and Central Bank Governors' meeting (till 12th, Washington, D.C.)
- 12-Apr Mar China trade statistics  
Feb eurozone industrial production  
Apr US University of Michigan's Consumer Sentiment Index (preliminary)  
● Brexit deadline in case that MPs do not approve withdrawal deal  
World Bank Group and IMF meeting (till 14th, Washington, D.C.)
- 13-Apr IMFC meeting

Source; Compiled by Daiwa Securities.

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

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

	1 - 5 Apr 2019 (actual)		8 - 12 Apr 2019 (forecasts)	
	Range	End of week	Range	End of week
USD/JPY	110.8-111.8	111.7	110.7-112.2	111.5
EUR/JPY	124.3-125.6	125.3	124.2-126.2	125.4
EUR/USD	1.118-1.126	1.123	1.117-1.132	1.125

Noteworthy currencies and factors

EUR	ECB Governing Council meeting may put downward bias on euro, but direction depends on EU Summit meeting
GBP	Pound may strengthen if we see long Brexit delay including possibility of second referendum
AUD	If growth of China's imports/exports recovers in line with expectations, this would create appreciation pressure on AUD

Source; Compiled by Daiwa Securities.

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### ■ 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.

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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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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.

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#### [Fitch]

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**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