

# Forex Market Weekly

## Focus on US stance on forex in trade talks with Japan

- Brexit deadline postponed again; weaker yen on better US/China indicators
- British government may compromise with opposition to break Brexit impasse
- This week's forex outlook: Focus on US stance on forex in trade talks with Japan

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

**15 - 19 Apr: Y111.0 – 112.5/\$ (Y112.0 at end-previous week)**

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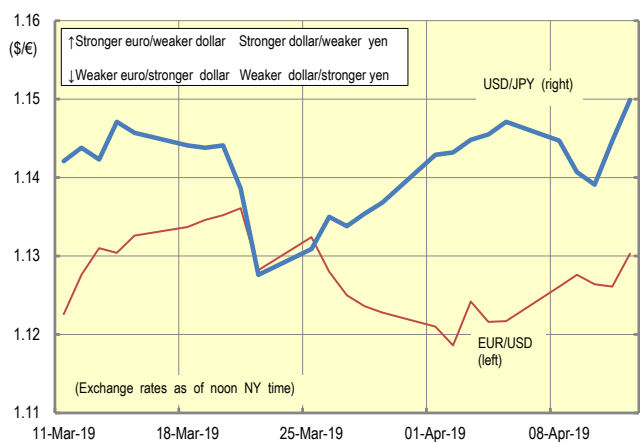
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### Overview of last week's forex market

#### Brexit deadline postponed again; weaker yen on better US/China indicators

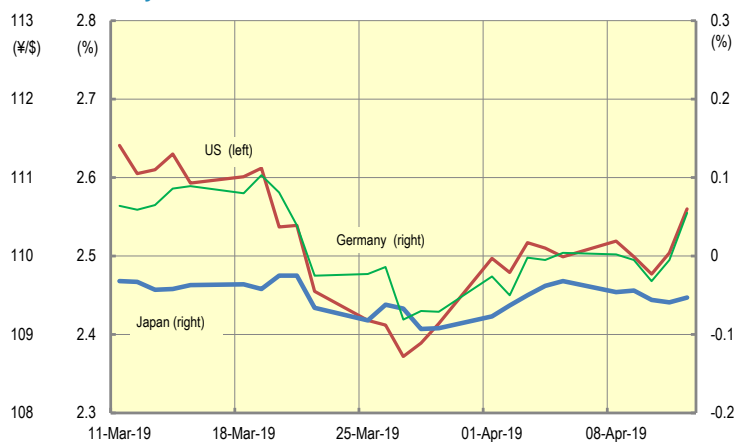
The dollar weakened at the start of last week with US interest rates declining after the release of March US employment data at the end of the previous week. US President Donald Trump threatened the EU with a list of goods that could fall under tariffs worth \$11.0 billion in retaliation for subsidies provided by the EU to Airbus. There were reports the EU is preparing its own retaliatory tariffs. The yen appreciated as investors turned risk adverse amid concerns about further trade friction. The British government suggested that concessions could be made during talks between the ruling and opposition parties in order to break the Brexit deadlock. There were even reports that Prime Minister Theresa May was considering a second public referendum on whether Britain should remain in the EU or leave. Still, the pound did not respond much to these developments. European Central Bank President Mario Draghi struck a dovish tone during his press conference after the ECB's Governing Council meeting. EU interest rates fell and the euro turned lower, but the EUR/USD recovered on lower US interest rates and the USD/JPY dropped to 110.84. The USD/JPY bounced back after US Treasury Secretary Steven Mnuchin said that the US and China are basically in agreement on the enforcement mechanisms that will govern any trade deal between the two countries. The yen depreciated after EU leaders again agreed to push back the Brexit deadline, this time to 31 October, while US interest rates and the dollar rose on an unexpected decline in US initial claims for unemployment insurance. Risk-on yen depreciation was spurred on by better-than-expected March Chinese exports and new bank loans.

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



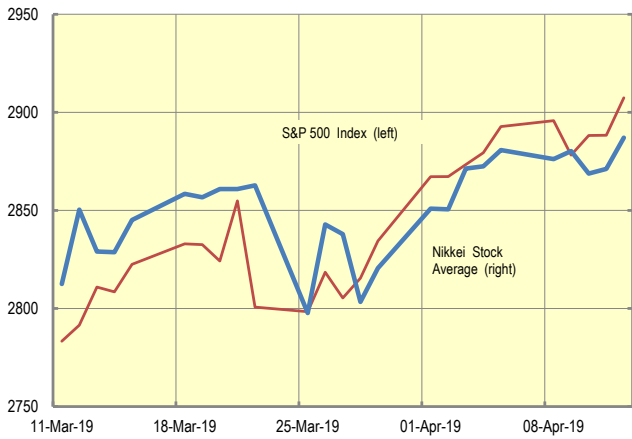
Source: Thomson Reuters; compiled by Daiwa Securities.

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



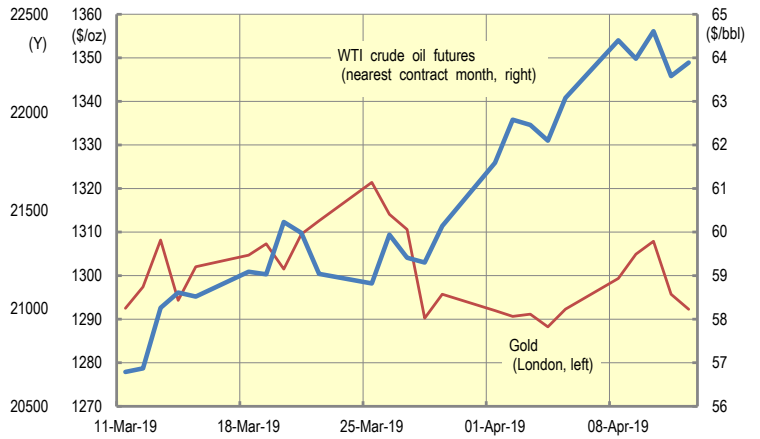
Source: Thomson Reuters; compiled by Daiwa Securities.

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



Source: Thomson Reuters; compiled by Daiwa Securities.

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



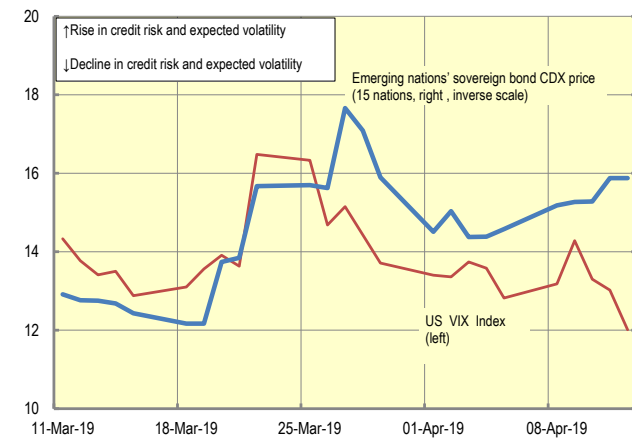
Source: Thomson Reuters; compiled by Daiwa Securities.

**Ruling party Brexit hardliners opposed to making concessions**

**British government may compromise with opposition to break Brexit impasse**

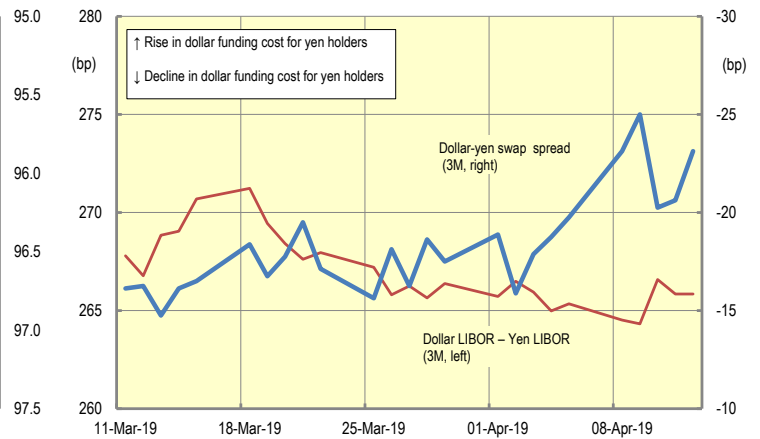
EU leaders agreed to again extend the Brexit deadline, this time until the end of October. The market reaction was subdued as another extension to avoid a no-deal Brexit was expected. Upward momentum for the British pound was likely held in check by views that (1) even with the extended deadline, winning Parliamentary approval for the government's Brexit deal remains a daunting task and (2) the British economy could slow as companies move business out of the UK during the deadline extension period. However, the British government is aiming to pass its Brexit plan by 22 May to avoid participating in the EU Parliament election. Furthermore, May has started to show signs that she will make concessions to win support from the opposition Labour Party (which insists on remaining in the customs union, has proposed holding a public "confirmatory" referendum on any Brexit deal). With Brexit hardliners within the ruling Conservative Party opposed to such concessions, government moves from 23 April, after the British Parliament's recess, should attract attention.

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



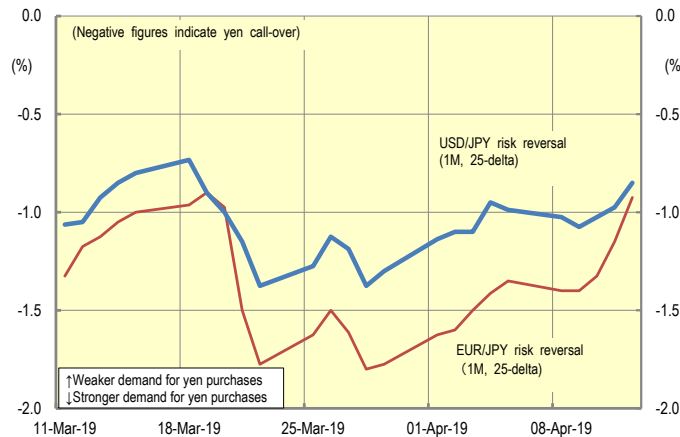
Source: Thomson Reuters; compiled by Daiwa Securities.

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



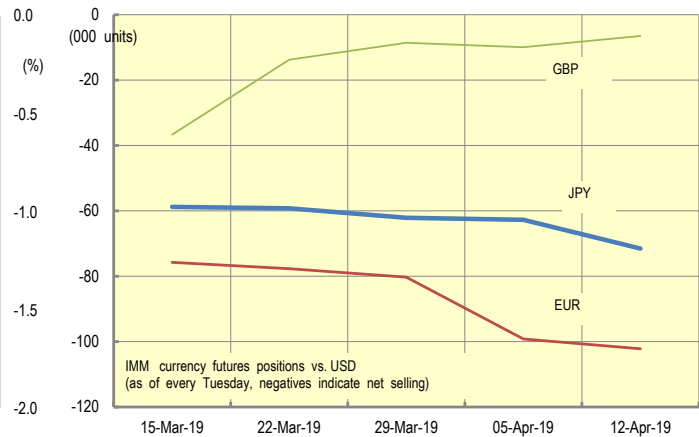
Source: Thomson Reuters; compiled by Daiwa Securities.

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: Focus on US stance on forex in trade talks with Japan

#### US may pressure Japan to "correct" yen weakness

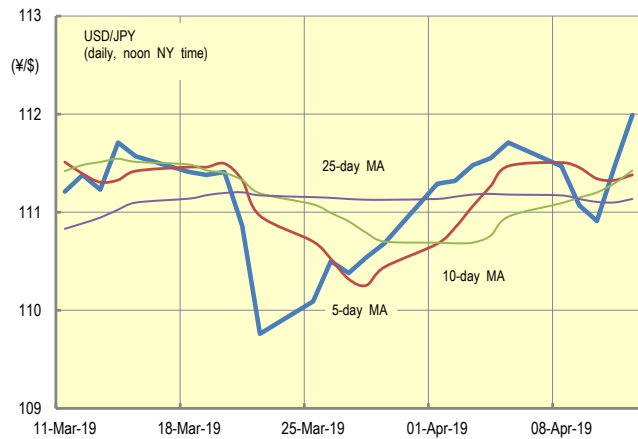
US/Japan trade talks will take place in Washington on 15-16 April. Discussions are expected to cover reducing/abolishing tariffs on goods, abolishing non-tariff barriers, and opening Japan's services market. Cutting tariffs is a risk-on (yen weakening) factor as it encourages increased trading. However, forex markets will probably not react much as this meeting is still just the first in a series. That said, the US Treasury Secretary affirmed that the US will request "currency clauses" in its trade talks with Japan, specifically currency policy transparency and refraining from devaluing the yen for competitive trading advantages. The key focus point is whether US authorities indicate dissatisfaction with the current low level for the yen, viewing it as one factor behind America's large trade deficit with Japan. This month the US Treasury Department could release its Report on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States. The key point will be whether this report insists that the yen is undervalued. The yen could appreciate and the dollar could weaken if there is the growing view that the US is not satisfied simply with Japanese companies moving more production to the US and so will pressure Japan to change its stance from "avoiding yen weakness" to "correcting yen weakness."

One key economic indicator due out this week is March US retail sales on 18 April. The market consensus is for a 0.9% m/m gain after a 0.2% decline in February (when excluding car sales, market consensus for 0.7% gain in Mar vs. 0.4% decline in Feb). For March, the University of Michigan Consumer Sentiment Index improved due in part to gains for US stocks (Conference Board Index worsened) and seasonally adjusted car sales improved sharply m/m. There is a very good chance that the propensity to consume, which fell sharply in December 2018 on the steep drop for US stocks, rose modestly in March. As such, March US retail sales will probably be solid and in line with the market consensus. There is likely potential for higher US long-term interest rates and dollar appreciation if concerns about a slowing economy recede.

#### Noteworthy currency: AUD

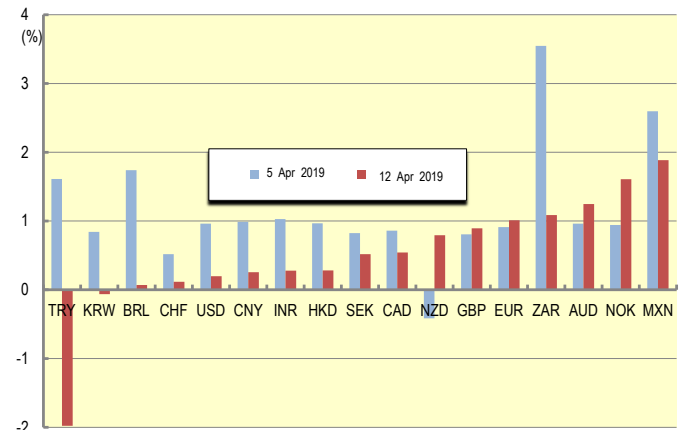
At its 2 April board meeting, the Reserve Bank of Australia maintained its monetary policy status quo. Still, expectations for a rate cut were heightened as tweaks to the official statement seem to suggest the central bank is leaning towards a rate cut. However, RBA Deputy Governor Guy Debelle noted that while production is weak, the labor market is strong, suggesting that a rate cut is not a forgone conclusion. Against this background, eyes are on March employment data due out on April 17. If this data suggests that the job market is indeed solid, there is a good chance that Australian interest rates and the Australian dollar could rise as some investment positions that had assumed an imminent rate cut are reversed.

**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**

- 15-Apr ● Apr NY Fed's Empire State Manufacturing Index
- US-Japan trade talks (until 16th, Washington D.C.)
- 16-Apr ○ Mar China 70 cities housing prices
- Minutes of RBA MPM on 2 Apr
- Apr German ZEW Indicator of Economic Sentiment
- Mar US industrial production, capacity utilization rate
- 17-Apr ○ Mar Japan trade statistics
- Jan-Mar China GDP
- Mar China industrial production, retail sales
- Feb eurozone trade balance
- Feb US trade balance
- 18-Apr ○ Beige Book (Fed)
- Apr eurozone PMI (Markit)
- US retail sales
- Apr Philadelphia Fed's Business Outlook Survey Index
- 19-Apr ○ Mar US housing starts

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**

	8 - 12 Apr 2019 (actual)		15 - 19 Apr 2019 (forecasts)	
	Range	End of week	Range	End of week
USD/JPY	110.8-112.1	112.0	111.0-112.5	111.7
EUR/JPY	124.7-126.8	126.6	125.1-127.1	126.0
EUR/USD	1.121-1.133	1.130	1.120-1.135	1.128

Noteworthy currencies and factors

AUD	AUD would strengthen if steady employment condition is confirmed by Mar jobs data
EUR	Sustainability of euro strength on favorable Chinese indicators depends on German/French PMI (to be released on 18th)

Source: Compiled by Daiwa Securities.

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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.

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- 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).

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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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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]

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#### [Fitch]

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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.

\*\* 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.

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 The Financial Futures Association of Japan  
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