Mizuho Bank

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Mizuho Dealer's Eye

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Mizuho Bank, Ltd.

Derivatives & Forex Department

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U.S. Dollar – August 2020

Expected Ranges **Against the yen: JPY103.50–106.50**

1. Review of the Previous Month

The dollar/yen pair fell as a faster pace over the latter half of July to hit 104 yen for the first time since March.

With US stocks rising at the end of June, the pair kicked off July trading around 108 yen on July 1, though it was then pushed down to the mid-107 yen mark by speculators and real-demand selling. The US June employment data was released on July 2. Though it had improved for the second straight month, the reaction of the markets was muted.

The second week saw reports by a Chinese newspaper on July 6 that Chinese stock markets had entered a bullish phase. With the US also releasing a better-than-expected ISM Non-Manufacturing Report on Business for June, risk appetite intensified. The dollar and yen were both sold though, so the pair's movements were restrained. The latter half of the week saw a flight to quality after US posted a rise in Covid-19 cases. As the price of gold rose and US interest rates fell, the greenback was sold and the pair fell to the upper-106 yen level.

It then rallied to 107 yen and climbed to around 107.40 yen at the start of the third week on the firm movements of Asian stocks. On July 15, though, Asian and emerging-market currencies were bought on news about the development of a Covid-19 vaccine. The USD/CNH pair was sold off and the dollar/yen pair also dropped back to around 106.70 yen. With a ECB Governing Council meeting and an extraordinary EU summit looming at the weekend, the pair fluttered around 107 yen in the latter half of the week.

The extraordinary EU summit proved to be a stormy one, but the participants did reach agreement on the establishment of a recovery fund on July 21, so the euro was bought and the greenback sold in the fourth week, with the dollar/yen pair temporarily hitting 106 yen before returning to the lower-107 yen mark. In the latter half of the week, the US announced it would be shutting down a Chinese consulate in Houston in relation to an infringement of intellectual property rights. This led to deep concerns about worsening US/China relations. With US interest rates also falling, the greenback was sold and the currency pair hit the upper-105 yen mark for a time.

Dollar selling continued into the fifth week, with the pair weakening to the lower-105 yen level on July 27. The pair had traded in a range from 106–108 yen since April, but investors now began searching for a new lower limit now that the pair had dropped below this range, with appetite for dollar buying quite limited when the pair dropped to the 105 yen range. Gold prices rose on July 28 on a flight to quality. FRB chair Jerome Powell also struck a dovish tone in his press conference after the FOMC meeting on July 29. All this saw the pair sliding to 104 yen, though its stay here was short-lived as investors focused on the 105 yen mark. The US released some bearish preliminary 2Q GDP data and new applications for unemployment insurance data on July 30. President Trump also hinted that the presidential election could be postponed. With US lawmakers also arguing over a new package of economic support, the pair tumbled to around 104.70 yen. With the Nikkei average falling sharply during Tokyo trading time on July 31, the pair continued falling to hit the lower-104 yen level.

2. Outlook for This Month

With the dollar gradually losing its status as a safe currency, the dollar/yen pair could tumble further in August.

The pair traded with a lack of direction up until mid-July, with the dollar and yen both sold during phases of risk appetite and both bought during phases of risk aversion. However, the greenback was sold in the latter half of the month as investors began to lose confidence in the dollar as a safe currency. Covid-19 is still raging in the US. There are also concerns about worsening US/China tensions after the US shut down the Chinese consulate in Houston. With US economic indicators also deteriorating, the dollar will become less susceptible to buying during phases of risk aversion. As the US presidential election looms, investors will focus strongly on US political risk in August too. President Trump and the Democrat candidate Joe Biden have both announced huge economic packages, so the dollar could be bought sharply at times, but with the world seemingly awash with cash at present, demand for the greenback in particular is falling. Under these circumstances, dollar buying will probably be capped, with this trend also supported by moves to release funds. Furthermore, uncertainty about who will win the presidential election brings back memories of the election in 2016. On August 16, 2016, the pair fell below the 100 yen mark. The pair was moving unstably at the time on the June Brexit vote, so it seems unlikely it will drop below 100 yen again this year, but dollar selling could accelerate on rising political risk in the run up to the election, so caution will be needed.

On the technical front, US interest rates and the Dollar Index are currently sliding. This bearish trend has been occurring on-and-off since April and it will probably continue form here on. The dollar/yen pair had traded in a range from 106–108 yen since April, but investors have begun searching for a new lower limit now that the pair had dropped below this range. With the greenback now facing strong selling pressure, the pair could well hit the 104 yen range this month. As for the pair's upper price, investors are now focusing on 106 yen, the lower level of its range since April, with the pair growing quite heavy on the topside. As a result, it seems more likely that the pair will trend lower on technical factors. Based on the above, the pair looks set to continue moving bearishly in August.

Dealers' Market Forecast

(Note: These opinions do not necessarily agree with the other contents of this report.)

Bullish on the dollar	8 bulls	107.50 – 103.00	Bearish on the dollar	11 bears	107.00 – 103.00

* Ranges are central values

Tanaka	Bear	107.00 – 102.00	With US real interest rates falling and the Covid-19 outbreak showing no signs of slowing, the presidential election season looks set to begin in earnest in the US. The dollar will probably move bearishly as investors price in a Joe Biden victory and as uncertainty grows in relation to US/China relations and so on. After lagging behind, the dollar/yen pair will be supported on the supply and demand front while seeing some modest attempts on its downside.
Takeuchi	Bear	107.00 – 102.00	With concerns about the Covid-19 outbreak intensifying again, the dollar/yen pair's movements will be marked by dollar bearishness as the US presidential election looms into view. There is no sense of overheating at present, with the euro and yen set to be bought when the greenback weakens. The yen will also rise at a faster pace at times.
Tsutsui	Bear	107.00 – 104.00	It seems US/China relations have entered a new phase given the July statement by the US Secretary of State regarding Washington's China policy in the wake of the presidential election. Market participants have yet to factor this in and there are signs of volatile markets trending lower. As such, the dollar/yen pair is expected to trade in a range around 105 yen in August.
Kato	Bull	108.00 – 103.00	There is a sense the euro and yen will be bought as a replacement for risk-off dollar buying, but if the euro's speculative rise peaks out, the dollar/yen pair will probably return to its previous level.
Yamagishi	Bear	107.00 – 103.00	The greenback is facing selling pressure on the resurgence of Covid-19 in the US and tensions between Washington and Beijing, so market participants will probably test the dollar/yen pair's downside. The number of newly unemployed in the US rose for the first time in 16 weeks. If a V-shaped recovery seems increasingly unlikely, the currency pair will probably slide in tandem with stock prices (which have risen on hopes).
Ushijima	Bull	107.00 – 103.00	As with regular years, the summer dry season will take hold in August. The dollar was sold after the dollar/yen pair broke below 105 yen, but the pace of this slide is slowing and the phase of yen appreciation could soon ease off. As with 2019, yen bullishness looks set to peak out over the Obon holidays, when Japanese investors are thin on the ground.
Tasaka	Bear	107.00 – 102.00	Concerns of a global economic slowdown are growing on the spread of Covid-19, while President Trump is also intensifying his anti-China rhetoric as he struggles in the US presidential election. As such, the dollar will continue to move bearishly. Given the summer dry season, the dollar/yen pair could undergo a sharp fall, so caution will be needed.
Omi	Bull	108.00 – 103.00	The dollar/yen pair will probably bounce back in reaction to the recent dollar bearishness. This comes on hopes for an economic recovery on the firm movements of US stocks and a lifting of restrictions on economic activity. There is a risk of rising volatility on a decline in market participants. There could also be periods of intensified dollar selling.
Ueno	Bull	108.00 – 103.00	US/China frictions seem part of President Trump's electoral strategy. Tensions are unlikely to move beyond the point of no return. The euro has risen on the agreement over an EU recovery fund, but it seems funds will soon return to the dollar.
Yamaguchi	Bear	107.00	US economic indicators are weakening again on concerns about the Covid-19 outbreak, while

		– 102.00	US/China tensions and US political risk are smoldering away. The dollar looks set to continue trending lower.
Onozaki	Bull	107.00 – 104.00	The euro has been bought on dollar selling, with the dollar/yen pair also breaking below 105 yen in July. However, the euro/dollar pair will probably undergo some adjustment given how fast it rose from July, so it is hard to see the dollar/yen pair dipping below 105 yen to undergo a one-sided slide.
Tamai	Bear	107.00 – 103.00	There are concerns about deteriorating US economic indicators given the Covid-19 resurgence there. Amid fears of worsening US/China tensions, the dollar/yen pair will probably trade with a heavy topside over the summer dry season.
Harada	Bear	107.00 – 102.00	The global Covid-19 outbreak shows no signs of slowing. US/China relations are also worsening as the US presidential election looms larger. The only positive factor is the firm movement of US stocks. The euro/dollar pair look set to move bearishly as the summer dry season begins in August.
Oba	Bull	107.50 – 104.00	The yen rose against the dollar late July as the euro was bought and the greenback sold. Investors will focus on comments by Treasury Department officials when the dollar/yen pair moves below 105 yen. The pair's room on the downside will be capped by speculation about buying when the pair moves bearishly. At the same time, the pair is unlikely to have its topside tested until the phase of euro buying comes to an end.
Katoono	Bull	107.00 – 102.00	Amid concerns about a second Covid-19 wave, the dollar will continue to be sold on several risk factors, including worsening US economic indicators, intensified US/China relations, and domestic turmoil related to demonstrations and so on. The pair will probably have its downside tested during the summer dry season.
Kobayashi	Bear	107.00 – 103.50	The Covid-19 outbreak is still sweeping the US, while US economic indicators are moving bearishly and US/China tensions are intensifying. With trading also thin on the ground in August, the dollar/yen pair looks set to continue moving bearishly.
Matsumoto	Bear	107.00 – 103.00	Investors will find it hard to actively buy the dollar given uncertainties related to the Covid-19 outbreak in the US, worsening US/China relations, and the US presidential election. There will be some real-demand dollar buying, but the dollar/yen pair will probably undergo a gentle slide.
Otani	Bull	107.50 – 103.50	The dollar is being sold on worsening US economic indicators and US/China frictions, though it will take more factors to push the dollar/yen pair below 104 yen and push the yen higher. There is also a sense that the dollar has been oversold from a technical perspective, so the pair's room on the downside will probably be capped.
Okuma	Bear	107.00 – 103.00	With the Covid-19 outbreak showing no signs of abating, the FRB has signaled that the US economic recovery might be pushed back. US economic indicators also point to uncertainty. With political turmoil also set to rise in the run up to the US presidential election, investors may test the dollar/yen pair's downside.

Hiroaki Yamagishi, Forex Sales, Derivatives & Forex Department

Euro – August 2020

Expected Ranges **Against the US$: US$1.1500–1.2100**
Against the yen: JPY121.00–127.00

1. Review of the Previous Month

In July, the euro/dollar pair rose sharply after EU heads of state reached an agreement on the establishment of a recovery fund.

After opening July trading around $1.12, the pair swung to and fro at the start of the month with an eye on stock movements. As stocks in Shanghai and so on continued to rise on July 9, the euro was bought on risk appetite, with the currency pair hitting $1.1371, its highest level in a month. With hopes rising that EU heads of state would reach an agreement on a recovery fund at an extraordinary meeting on July 17, the pair breached the key $1.14 mark on July 14 before reaching a four-month high of $1.1452 on July 15.

The ECB Governing Council kept the Pandemic Emergency Purchase Programme (PEPP) unchanged when it met on July 16. ECB president Christine Lagarde's press conference also sprung no surprises, so the impact on the market was muted. With the EU summit looming at the weekend, the pair continued to float around $1.14.

The EU summit then opened on July 17. The meeting was scheduled to end on July 18, but a lack of an agreement saw the meeting extended to the following week. Participants were divided over the ratio of non-repayable subsidies and repayable loans in the EUR750 billion fund. There were substantial disagreements between southern European countries badly hit by Covid-19 (such as Italy and Spain) and those countries that prioritized fiscal discipline, with European Council president Charles Michel working hard to bring the parties together.

After five days, at the end of a marathon meeting lasting over 90 hours, an agreement was reached on July 21 for a recovery fund worth 750 billion euros, including 390 billion euros in non-repayable subsidies. The euro shot up as a result. With the July PMIs of France, Germany and the eurozone as a whole all beating expectations, the euro was bought further over the latter half of the week, with the euro/dollar pair temporarily hitting a high of $1.1658.

The bearish-dollar trend continued in the last week of the month, with the currency pair rising higher. Germany released a better-than-expected July IFO Business Climate Index on July 27, with the pair then reaching a high of $1.1781. The FOMC met on July 29. Its statement contained no surprises, while FRB chair Jerome Powell also struck a dovish tone in his press conference when he talked about ongoing easing. This saw renewed dollar selling and euro buying, with the pair climbing to $1.1807. The US released its 2Q GDP data on July 30. At -32.9% quarter-on-quarter, the data posted its largest contraction since records began. With US lawmakers also failing to reach agreement on an additional economic package, the greenback continued to be sold and the euro bought. On July 31, the currency pair temporarily hit the $1.19 range for the first time since May 2018, some 26 months ago, before renewing recent highs.

2. Outlook for This Month

In August, the euro will be bought on the warm reaction to the agreed EU recovery fund, with the euro/dollar pair also set to trend higher on the divergent economic performance of the EU and US, for example.

When the EU summit opened on July 17, there were fierce arguments between southern and northern Europe and an agreement on the establishment of a recovery fund was initially difficult to reach. After a marathon session lasting five days, participants finally agreed to set up a EUR750 billion fund to help EU economies recover from the Covid-19 crisis. This historic agreement boosts the EU's budgetary powers and deepens European integration while also making a huge contribution to stability in Europe. If the agreement had been pushed back, the economy could have slowed further, with the euro sold again on instability in southern Europe. The euro has been hit on numerous occasions as risk sentiments worsened on political infighting in relation to the Greek crisis and so on. This agreement is based on the ideal of European unity, though, and it marks a further step in the direction of fiscal integration. As such, it has boosted confidence in the euro, so investors will probably feel relaxed about buying the single currency.

The euro will also be bought on emerging signs of optimism when it comes to Europe's real economy. The eurozone PMI released in July hit 54.8, thus topping 50 (the key line separating expansion from contraction) for the first time in two years. New Covid-19 cases in Europe have dropped off compared to the situation in the US, with the economy boosted as restrictions on economic activity are lifted. The IMF's economic outlook predicts that Europe will see faster GDP growth rate than the US and Japan in 2021, with hopes now swelling for an economic recovery. One focus for the euro going forward will be whether the European economy steadily recovers on fiscal and monetary policy.

The dollar is moving bearishly at present on a resurgence of Covid-19 in the US and on US/China tensions, for example. This will also support the euro/dollar pair's movements. Emergency dollar buying has eased off, with the Dollar Index (DXY) moving sharply below its March low. The US continues to post around 70,000 new Covid-19 cases each day, with the new applications for unemployment insurance data also increasing for the first time since April, some 16 weeks ago. If the US economy fails to bounce back and a V-shaped recovery seems increasingly unlikely, the dollar will be sold and the euro bought further.

However, the euro's rise was quite sharp, so there will probably be some adjustment for a time. The euro/dollar pair rose by over 600 points in July. A glance at the IMM currency futures data from the

Chicago Mercantile Exchange shows euro long positions swelling to $23.07 billion as of July 28, the highest level since April 2018. The euro has enjoyed a one-sided rise on the optimism that sprung from the agreement on a recovery fund, but the currency pair could fall on some considerable adjustment if investors unwind their positions on some selling factor or other, so caution will be needed.

Dealers' Market Forecast

(Note: These opinions do not necessarily agree with the other contents of this report.)

Bullish on the euro	14 bulls	1.2100 – 1.1500	Bearish on the euro	5 bears	1.2000 – 1.1500

* Ranges are central values

Tanaka	Bull	1.2100 – 1.1500	There are noticeable differences between Europe and the US when it comes to the Covid-19 situation and responses, fiscal mobilization moves, and the pace of the economic recovery. The greenback faces several selling factors, including low real US interest rates, uncertainty about US/China relations, and the imminent US presidential election season. As such, the euro/dollar pair will continue to move firmly while making several short-term adjustments.
Takeuchi	Bull	1.2100 – 1.1500	There will be some short-term adjustment to the trend of euro bullishness that occurred after a deal was made on an EU recovery fund, but there remain many investors and players who have not sufficiently factored in the euro's rise. There will be considerable appetite for buying on the dip when the euro/dollar pair hits the halfway point between its 2018 high and its 2020 low.
Tsutsui	Bear	1.1950 – 1.1550	There was some euro short covering on the agreement over a European recovery fund, for example, but price movements and IMM positions suggest the euro/dollar pair will move flatly in August. In fact, the pain trade could see the euro trending lower.
Kato	Bear	1.2000 – 1.1500	Long positions have piled up on the euro's strength. This trend was probably boosted by deteriorating US/China tensions. Speculator positions are substantially inclining in one direction, so investors should be wary of a steep fall after a short rise.
Yamagishi	Bull	1.2100 – 1.1500	The euro will continue to trend higher on hopes for the future in the wake of the agreement on a recovery fund. After rising by over 600 points in July, the euro/dollar pair could face some short-term sharp corrections. However, the historical agreement marks a further step in the direction of fiscal integration. As such, it has boosted confidence in the euro, so investors will probably feel relaxed about buying the single currency.
Ushijima	Bull	1.2000 – 1.1200	The euro/dollar pair will continue to be bought on excess dollar liquidity. Investors could test the pair's topside with an eye on \$1.20. However, euro long positions have built up in the IMM currency futures markets, so the pair's room on the topside will also be capped.
Tasaka	Bull	1.2100 – 1.1500	With the dollar set to slide further, the euro will continue to be bought as an alternative given the agreement on an EU recovery fund and hopes for a European economic recovery. There will be some short-term adjustment, but the euro/dollar pair will move firmly on the whole.
Omi	Bear	1.2000 – 1.1500	The euro has risen on the recovery fund agreement, but this trend will come to an end in August. The euro will probably dip slightly on the easing measures introduced to combat Covid-19 and on the chronic Covid-19 situation in Europe.
Ueno	Bear	1.2000 – 1.1400	August sits in the summer dry season. Market participants are unlikely to incline their positions without considering liquidity (≒ exit strategy). The euro/dollar pair has soared recently, but it is unlikely to rise further without the emergence of some new factors.
Yamaguchi	Bull	1.2100 – 1.1500	The euro has risen on the agreed European recovery fund. US economic indicators are deteriorating on the Covid-19 surge there, so the trend of dollar bearishness looks set to continue. There may be some adjustments following the euro/dollar pair's sharp surge, but market participants will probably test the \$1.20 range.

Onozaki	Bear	1.2000 – 1.1400	The euro/dollar pair tested the $1.20 range in July, but euro long positions have now built up considerably, so the euro's firmness could wane somewhat this month. The pair could also fall if investors adjust these long positions, so caution will be needed.
Tamai	Bull	1.2100 – 1.1400	It took longer than expected for the EU to reach an agreement on a recovery fund, but the deal led to a sense of relief on greater European integration. Amid concerns of a second Covid-19 wave in the US, the greenback will continue to be sold, with the euro/dollar pair moving firmly as a result.
Harada	Bull	1.2100 – 1.1400	As expected, the ECB left policy unchanged in July. With a deal also reached on a European recovery fund, there are now fewer European events lined up. The euro/dollar pair rose in July, in part due to short covering. If nothing changes, this trend will probably continue in August too.
Oba	Bull	1.2000 – 1.1750	Investors have built up euro long positions, but there still seems to be ample appetite for the euro. The pair is probing highs in the key $1.20 range, but there will be selling to lock in profits around $1.195, so on the whole the euro/dollar pair looks set to float at highs just below $1.20.
Katoono	Bull	1.2100 – 1.1600	The EU has reached an agreement on a Covid-19 recovery fund. With Europe also introducing several economic measures, the euro/dollar pair will continue to move firmly in August on a bullish euro. However, concerns of a second Covid-19 outbreak continue to smolder away, so the euro is unlikely to see one-sided buying and the pair's topside will probably be capped.
Kobayashi	Bull	1.2150 – 1.1400	As for the eurozone, the markets have reacted warmly to the agreement on a recovery fund. There are also concerns about the negative impact on the US economy of the ongoing Covid-19 outbreak. As such, the euro/dollar pair looks set to move firmly in August too.
Matsumoto	Bull	1.2100 – 1.1500	The euro will continue to be bought on the European recovery fund agreement and a European economic recovery. In the absence of any noteworthy dollar-buying factors, the euro/dollar pair will probably rise above the key $1.2 mark.
Otani	Bull	1.2100 – 1.1500	The number of new Covid-19 cases is quite subdued in Europe compared to the US. With the euro also being bought on the European recovery fund agreement, the euro/dollar pair will remain bullish this month. However, euro long positions have already ballooned, so the pair's room on the topside will probably be capped.
Okuma	Bull	1.2100 – 1.1600	Despite concerns of a second Covid-19 wave in Europe, an economic recovery seems more likely in Europe than in the US. European solidarity has been boosted by the recovery fund agreement, with the Chinese economic recovery also likely to boost the eurozone, so the euro/dollar pair looks set to trend higher in August.

Fumihiko Kanda, Europe Treasury Department

British Pound – August 2020

Expected Ranges	**Against the US$:**	**US$1.2300–1.3200**
	Against the yen:	**JPY132.00–140.00**

1. Review of the Previous Month

The pound/dollar pair rose in July.

The pound was bought early July. This trend continued on from the end of June, when sterling had moved bullishly on the warm reaction to an infrastructure investment plan announced by UK prime minister Boris Johnson. The June US employment data was released on July 2. This posted a historical increase, though dollar buy-backs were limited and the currency pair continued rising. The pound temporarily rose by around 1% against the dollar on July 7. The reason was unclear, but it seems sterling was supported by hopes regarding the economic stimulus package that UK chancellor Rishi Sunak was set to announce on July 8. Mr. Sunak did announce a package of up to 30 billion pounds, so the pound/dollar pair continued rising to return to the $1.26 range for the first time in around a month.

The pair moved flatly with a slightly heavy topside mid-July. The UK May GDP data was released on July 14. At +1.8% m-o-m, the economy had not rallied as much as expected (+5.5% m-o-m), so the pound was sold on a sense of disappointment, with the pair dipping below $1.25. This data related to the period during lockdown, though, so the pound was soon bought back. The pair moved heavily on July 15 after Bank of England (BOE) member Silvana Tenreyro said the UK may see an incomplete V-shaped recovery. The pair continued moving in the $1.25 range at the weekend.

Sterling moved firmly again late July. The euro rose when EU heads of state reached an agreement over a Covid-19 recovery fund during a meeting on July 20–21. The pound was also bought as risk sentiments improved on news about the development of a Covid-19 vaccine. All this saw the currency pair rising to the upper-$1.27 mark on July 21. Sterling continued climbing as the dollar was sold across the globe, with the pair rallying to its pre-lockdown price of the $1.30 range on July 29. The dollar saw some adjustive buying in the run up to the FOMC meeting, but the pair was then bought to $1.3070 on July 30 and it hit a monthly high of $1.3170 at the month's end.

2. Outlook for This Month

The pound/dollar pair is expected to trade around $1.27 (its 200-day average line) in August. There are some concerns about high prices after the pair soared late July, so the pair's topside could well be $1.32, its high from directly before the lockdown. The pair will probably trade with a lack of direction as market participants enter summer holiday mode.

Sterling will continue to be swayed by the global Covid-19 situation and dollar demand. On the domestic front, the UK government has begun a phased lifting of lockdown conditions. Almost all entertainment and leisure facilities reopened from August 1, with the government also leaving it up to companies to decide whether to let employees work from home (after previously encouraging such action). The government has also announced a series of support measures, but the UK is in an extremely tight fiscal spot, with government debt ballooning to a record around GBP1.98 trillion (270 trillion yen) in July. There are signs the government is planning to sharply cut unemployment payments when the economy reopens. The government is no longer encouraging people to work from home, but there are concerns this could lead to a second Covid-19 wave, so this policy seems difficult to comprehend on an individual level. UK prime minister Boris Johnson originally called for the UK population to develop a herd immunity to Covid-19, with his thinking only changing after he himself contracted the virus, so there is a sense the UK is lagging behind continental Europe slightly when it comes to its Covid-19 response. There is still a lot of uncertainty. Spain has already reopened its economy, for example, but discussions are now underway about how to prevent a resurgence of the virus in Catalonia.

Furthermore, the UK is only recovering at a sluggish pace from the Covid-19 outbreak, so rumors are circulating again about the implementation of negative interest rates in the UK. However, the BOE's Monetary Policy Committee (MPC) is unlikely to make such a move when it meets on August 6. The UK 2Q GDP is set for release on August 12, with the currency pair likely to be swayed by conjecture about the results.

Incidentally, it seems no progress has been made when it comes to Brexit. Negotiations are penciled in for August 17, but with both parties still at loggerheads, the talks are unlikely to prove to become a factor for the pair.

Shiho Kawaguchi, Sydney Treasury Office, Asia & Oceania Treasury Department

Australian Dollar – August 2020

Expected Ranges	**Against the US$:**	**US$0.7000–0.7300**
	Against the yen:	**JPY74.00–76.00**

1. Review of the Previous Month

The AUD/USD pair rose to $0.6944 on July 1 on news that an effective vaccine had been jointly developed by US and German companies. The greenback was then bought on July 2 on the June US employment data, with nonfarm payrolls rising sharply and the unemployment rate also not as bad as expected. After a round of buying, the dollar was then sold on risk appetite. The AUD/USD topped $0.6950 as a result.

The pair then moved in a range between $0.69–0.70 from July 2 to July 14. On the one hand, sentiments deteriorated on concerns that the resumption of economic activity might be delayed by the spread of Covid-19 and social distancing measures, with investor moods also darkened by job cuts and a lockdown in Melbourne. On the other hand, the pair was also swayed by optimism about the development of a new drug.

Risk sentiments improved and the pair climbed to the lower-$0.70 mark on July 15 on reports that a vaccine developed by a US pharmaceutical company had managed to create antibodies. Market attention was also drawn to the ECB's Pandemic Emergency Purchase Programme (PEPP). With the EU also set to discuss a recovery fund, investors kept hold of their euros. The greenback was subsequently sold, with the Australian dollar favored as an alternative. This trend also helped to push the pair out of its range. The Australian June employment data was released on July 16. The jobs figure had returned to positive territories and the labor participant rate had also improved, though the unemployment rate deteriorated to 7.4%. With some cities in lockdown and amid ongoing concerns that the unemployment rate could worsen again going forward, the pair moved with a heavy topside.

The pair then returned to the $0.70 range on July 20 on news that a vaccine being developed by a UK pharmaceutical company had produced antibodies. Risk appetite continued on July 21, with the pair rising to the mid-$0.71 mark. The pair's downside was supported by comments by RBA governor Philip Lowe to the effect that the Australian dollar's exchange rate was in line with the fundamentals, with no intervention needed to push the unit lower. On July 22, the US government gave China 72 hours to close down a consulate in Houston. The AUD/USD pair fell from $0.7168 to $0.7112 on risk aversion before closing at the mid-$0.71 mark. The pair dipped temporarily to $0.7091 on July 23 as stock fell after the US posted a rise in new applications for unemployment insurance. On July 24, China ordered the US to close its consulate in Chengdu, Sichuan Province.

On July 27, the pair's topside was tested from around $0.71. The greenback weakened on expectations that the US authorities would continue to pursue easing measures. On July 28, the pair fell from the upper-$0.71 level to the lower-$0.71 mark. The greenback was then sold on the release of the US July Consumer Confidence Index, with the pair bouncing back to around $0.7160. Australia's 2Q CPI data was released on July 29 and it showed inflationary pressures easing again. Inflation was pushed down by several factors, including state lockdowns to prevent the spread of Covid-19, restrictions on economic activity, a time-limited free childcare program, and a sharp fall in crude oil prices. Though crude oil prices have recovered from the April slump, they have yet to recover to pre-Covid levels and there is still a risk of a downswing. After the inflation announcement, the currency pair tumbled from around $0.7165 to around $0.7150.

With the US continuing to suffer from a second Covid-19 wave, the markets began to factor in negative interest rates on the assumption that the FRB would pursue easing for a prolonged period. The greenback was then sold after the release of the FOMC's statement, with the AUD/USD hitting a high of $0.7197 for the first time in 15 months. The pair then moved between $0.7158–0.7190 after FRB chair Jerome Powell's press conference. The greenback was sold at a faster pace on July 30 on the release of the US 2Q GDP data and several tweets by Donald Trump. The currency pair subsequently rose to $0.7198 before hitting the $0.72 range on the morning of July 31.

2. Outlook for This Month

In August, the AUD/USD pair will probably have its topside tested in the $0.72 range.

However, it seems the pair will be swayed more by negative factors in the US rather than by having its downside bolstered by positive factors in Australia. The damage caused by a second Covid-19 wave is starting to manifest itself in economic indicators and these concerns could grow more pronounced going forward. It also seems the FRB will pursue easing for a prolonged period. As such, the greenback is being sold at present, with the AUD/USD pair subsequently rising to the $0.72 range.

There are also downside risks for the Australian dollar though. It is possible that state lockdowns to deal with a second Covid-19 wave could drag on in Australia, with the resumption of economic activity delayed and economic indicators deteriorating, for example. Investors will also need to monitor news related to frictions between Australia and China. Either way, the pair will probably trade heavily during phases of risk aversion.

Reiko Kanemoto, Canada Office, Americas Treasury Department

Canadian Dollar – August 2020

Expected Ranges **Against the US$: C$1.3200–1.4000**
Against the yen: JPY76.00–84.00

1. Review of the Previous Month

The USD/CAD pair opened July trading at C$1.3587. The pair traded in a narrow range between C$1.350–1.364 in the first half of July as the markets swung between hopes for a vaccine and a resumption of economic activity and concerns about a second Covid-19 wave. Stock markets in the US and elsewhere rose from mid-July as each country posted improved major economic indicators and as hopes grew for an end to the Covid-19 outbreak. Crude oil prices (WTI) also continued to rise. With investors also speculating that the FOMC would strike a dovish stance when it met on July 27, the pair strengthened to C$1.3331.

The Canadian dollar was sold somewhat on July 7 as US crude oil inventories increased and the US Energy Information Administration predicted that crude oil output would not fall as much as expected in 2020. On July 8, hi-tech stocks led a rally in US equities. As risk appetite increased, the Canadian dollar was bought and the currency pair temporarily hit C$1.3493. The Canadian government released its fiscal projection for fiscal 2020 during the afternoon. The forecast was for a $343.2 billion deficit on the introduction of an emergency support program and a decline in revenue due to slowing economic activity. The government also said a full economic recovery would not begin until the arrival of an effective vaccine, with the economy set to recover at a sluggish pace until 2021. The Canadian dollar was sold slightly on this announcement, though the market reaction was limited. Fears of a Covid-19 second wave flared up again on July 9. As US and Canadian stock markets fell back, the Canadian dollar was sold as the greenback rallied. The Canadian June employment data was released on July 10. The number of full-time and part-time workers had increased by a total of 953,000, with the unemployment rate also falling from 13.7% to 12.3%. Though the data significantly outperformed expectations, the employment situation still remained in the doldrums compared to the previous year. With the Bank of Canada (BOC) also meeting to set policy the following week, Canadian-dollar buying was muted.

As expected, the BOC kept the policy rate fixed at 0.25% when it met on July 15. It also said the rate would remain unchanged until inflation hit the 2% target. The Canadian dollar was sold directly after the meeting, but with crude oil inventories unexpectedly falling sharply in the US weekly energy statistics data, crude oil prices continued rising and the Canadian dollar was bought.

On July 21, the EU reached an agreement on an economic recovery package worth 750 billion euros. The Canadian dollar was also boosted by news that several pharmaceutical companies were making progress when it came to developing a Covid-19 vaccine. With the markets in risk-on mode, WTI rose and the Canadian dollar was bought. Stock markets and crude oil prices trended lower from July 22 on concerns about Covid-19 and US/China frictions. With the FOMC meeting looming, though, the greenback continued to be sold on the possibility that US rates could fall further. With speculation growing that the FOMC would strike a more dovish tone, the greenback fell against other major currencies, with US stocks rising and energy prices climbing. The FRB kept policy rates fixed on July 29. Investors continued to sell the greenback on the decision to maintain the current quantitative easing measures.

2. Outlook for This Month

As with July, the USD/CAD pair looks set to trade in a narrow range in August as the markets swing between optimism and pessimism. There are signs of economic activity getting back to normal across the world, but the future remains uncertain given concerns about deteriorating US/China relations and fears about a second Covid-19 wave in the US and elsewhere.

Since May, Canada has begun to reopen its economy in phases, with recent Canadian economic indicators showing signs of recovery. However, indicators released in July (including the 2Q Canadian Business Outlook Survey, the Canadian government's fiscal projection, and the BOC's statement) suggest the domestic economy will not return to pre-Covid levels until late 2021 or 2022. Given this harsh economic outlook for this fiscal year and the deterioration in consumer sentiments, it would be unrealistic to expected a V-shaped recovery in the latter half of 2020. Canada's real GDP growth rate will probably slump to -7.8% in 2020 before hitting +5.1% in 2021 and +3.7% in 2023. Inflation will also remain at 0.6% in 2020 before hitting 1.2% in 2021 in 1.7% in 2022 as it gradually edges towards to the BOC's 2.0% target. Based on this, it seems any BOC rate hike will have to wait until 2023 onwards. Tiff Macklem became governor of the BOC in June, though there has been no significant shifts away from the policies pursued under the previous governor Stephen Poloz.

The greenback has fallen since late-July and this trend looks set to continue in August. Reasons for this prediction include the resurgence of Covid-19 in the US, deteriorating US/China relations, the impending US presidential election on November, and expectations for further FOMC rate cuts. The euro and yen have already risen as investors seek a safe harbor in place of the US dollar. The USD/CAD pair has also seen none of the US-dollar buying that occurred from March to May, with the Canadian dollar set to continue trending higher against its US counterpart.

There is unlikely to be any significant shifts in WTI movements. Economic data from various major nations suggests the economy bottomed out over the second quarter, with crude oil demand also set to steadily recover from here on. However, if demand looks set to increase, production will increase, while output will probably be lowered when inventories increase and demand falls. With this trend set to continue, crude oil prices will remain around $40/barrel. The Canadian dollar will appreciate at times as WTI prices rise on headlines about an economic recovery, but overall the pair is expected to move in a narrow range between C$1.32–1.35.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – August 2020

Expected Ranges	**Against the US$:**	**KRW1,160–1,220**
	Against the yen:	**JPY8.475–9.091 (KRW100)**
		(KRW11.000–11.800)

1. Review of the Previous Month

In July, the USD/KRW pair moved with a lack of direction in a range from KRW1190-1210.

The pair opened the month trading at KRW1199.0. The greenback was bought and the pair climbed to KRW1204.6 during Asian trading time after several arrests were made following the passing of the Hong Kong national security law at the end of June. However, the pair then dropped back on news that an effective Covid-19 vaccine had been jointly developed by US and German companies. The pair then floated around KRW1200. The US released some very bullish employment data on July 2. As global risk appetite increased, the pair weakened on July 3.

Chinese stocks surged by over 5% on July 6 as hopes for an economic recovery grew on the announcement of an accommodative currency policy and an increase in housing sales. With the US also releasing a bullish ISM Manufacturing Report on Business during overseas trading time, the USD/KRW pair fell to KRW1.189.7 in the morning of July 7. However, it fell back from this level on sustained real-demand dollar buying. On July 8, US secretary of state Mike Pompeo said Chinese premier Xi Jinping was having a harmful impact on the world and on democracy, with US/China frictions becoming more apparent. Nonetheless, the pair floated in a range between KRW1190–1200. The greenback was then bought across the board during overseas trading time on July 9 after Florida and Texas recorded record Covid-19 fatalities, so the pair broke above the key KRW1200 mark. After rising temporarily to around KRW1205 on July 10, optimism then grew on news about the successful trial of a Covid-19 treatment. This saw the pair falling to KRW1200.

It then floated around KRW1200 for about a week. However, news then emerged during overseas trading time on July 20 that a UK pharmaceuticals company had carried out a successful Covid-19 trial. With the EU also reaching an agreement on a recovery fund on July 21, the greenback was sold across the board and the currency pair weakened to KRW1192.0 on July 22. During overseas trading time on July 23, though, the US ordered China to close down its consulate in Texas. With China also ordering the US to close its consulate in Chengdu, Sichuan Province, US/China tensions increased and the pair bounced back. The pair then rallied to KRW1200 on July 24 as a result of these tensions. The pair moved with a heavy topside at the month's end on real-demand won buying. It finally closed the month trading at KRW1191.30 on July 31.

2. Outlook for This Month

The USD/KRW pair is expected to move with a slightly heavy topside in August. The pair will continue to be swayed mainly by concerns about a second Covid-19 wave and hopes for the development of a vaccine. However, with market participants thin on the ground in August, the pair will probably move with a lack of direction on the whole.

The pair will also be swayed by occasional headings related to US/China frictions. However, this is unlikely to become an ongoing factor for the pair, as it was during US/China trade talks last year. With a US presidential election looming in November, it is hard to see relations between Washington and Beijing worsening further.

On the flow front, selling by overseas investors prevailed in South Korea stock markets from March to June, but buy-backs began entering July. Demand is returning to the semiconductor sector after shrinking back last year, with sentiments improving on expected mid- to long-term demand in relation to 5G and the IoT. This will probably act as a buying factor for the won.

When it comes to monetary policy, the US and South Korea will probably remain in wait-and-see mode for now. FRB chair Jerome Powell has ruled out negative interest rates, so for the time being easing will probably involve adjusting the conditions of the asset purchasing program introduced by the FRB to tackle Covid-19. When the Bank of Korea (BOK) cut interest rates on May 28, the BOK governor said policy rates were nearing the effective lower bound, so the Monetary Policy Board will probably just monitor the market reaction to current easing policies when it meets on August 16.

Under these circumstances, though the pair will trade with a lack of direction amid a dearth of market participants, it looks set to move with a slightly heavy topside on real-demand won buying and so on. However, though US and global stocks rose from the end of March onwards on monetary and fiscal easing, there could be a sharp correction if expectations for rising stock prices wane, so market participants will need to pay attention to stock movements.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – August 2020

Expected Ranges	**Against the US$:**	**NT$29.00–29.50**
	Against the yen:	**JPY3.55–3.65**

1. Review of the Previous Month

With the Taiwan Capitalization Weighted Stock Index renewing record highs in July, the Taiwan dollar rose to its highest level against the US dollar in around 27 months.

The USD/TWD pair opened the month trading at TWD29.630. Exporters sold the dollar at the end of June, but this trend eased entering July, with the pair moving around TWD29.450 at the start of the month. However, stocks then saw buying and the Taiwan Capitalization Weighted Stock Index hit a 30-year high, so the Taiwan dollar was bought and the pair dipped to around $29.350. With Asian stocks then moving bearishly, Taiwanese equities also fell and the currency pair rallied to around TWD29.450.

Exporters held off from buying the greenback mid-July on the Taiwan dollar's recent bullishness, though they did sell the unit when the currency pair traded around TWD29.450. As such, the pair continued to move in a range with a heavy topside.

With the Taiwan Capitalization Weighted Stock Index approaching record highs late July, the currency pair moved around TWD29.400. However, the US then ordered the closing of China's consulate in Houston, with Beijing retaliating by ordering the closure of the US consulate in Chengdu, Sichuan Province. Stocks subsequently fell on concerns about deteriorating US/China relations. The USD/TWD pair was also pulled up to around TWD29.450. Hi-tech stocks and other equities were then bought, with the Taiwan Capitalization Weighted Stock Index hitting an all-time high to reach the 13,000 level for the first time. The currency pair was also pulled lower to temporarily hit TWD29.230 for the first time in around 27 months. However, stocks were then sold to lock in profits, so the pair's slide was halted and it moved around TWD29.300.

2. Outlook for This Month

In August, the USD/TWD pair's movements will probably be marked by dollar bearishness and Taiwan-dollar bullishness.

Hi-tech stocks account for a high proportion of Taiwan's listed companies. With TSMC stocks and other hi-tech equities bought in July, the Taiwan Capitalization Weighted Stock Index hit its highest level in around 30 years. The Taiwan dollar was pulled along by these movements to hit its highest level against the greenback in around two years.

A glance at the economic indicators in June shows exports of rubber, plastic and chemical products all sliding by over 10% year-on-year, though exports of electronic parts increased, so the overall export figure only fell by -3.8% m-o-m. Export orders also rose to +6.5% y-o-y on an increase of orders for electronic products. With the Covid-19 outbreak also cooling off in Taiwan, all the conditions are in place for Taiwanese equities to perform stronger than those of other countries. At -0.73%, though, the preliminary 2Q GDP data (quarter on quarter) fell below expectations to dip into negative territories. This mainly because consumer spending slumped on a sharp slide in tourist numbers, for example, though the downswing was muted compared to other countries.

The Taiwan dollar is expected to move strongly on bullish stocks in August too. Taiwan also has many exporters, so if these companies perform well, as mentioned above, then they will probably sell the US dollar. However, if the second Covid-19 wave grows more pronounced across the globe, then demand for electronic parts and so on could shrink (after previously growing in response to remote working needs). Investors will need to monitor the spread of Covid-19 across the world. Furthermore, it is difficult to ascertain what impact deteriorating US/China relations will have on the USD/TWD pair. Depending on the details of the US's punitive measures, these frictions could prove a boon for Taiwanese companies. Investors will need to pay close attention to these deteriorating relations.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – August 2020

Expected Ranges	**Against the US$:**	**HK$ 7.7500–7.7650**
	Against the yen:	**JPY 13.50–13.80**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in July

In July, the U.S. dollar/Hong Kong dollar exchange rate moved away from the level around HKD 7.7500, which is the upper end of the fluctuation range for the Hong Kong dollar, temporarily falling to HKD 7.7548. After the approval of the Hong Kong national security law by the Chinese authorities, U.S. President Donald Trump signed an executive order to end preferential treatment for Hong Kong, and this led IPO demand to fall, leading the Hong Kong dollar to depreciate. Dividend returns to Hong Kong also decreased, which was another reason for the depreciation of the Hong Kong dollar. In the middle of July, U.S. President Donald Trump declared that Hong Kong was no longer autonomous enough to enjoy the preferential treatment that Hong Kong had enjoyed since Hong Kong returned to China, signing an executive order to end such preferential treatment that gave Hong Kong the designation of being considered a customs and travel territory separate from Mainland China. On the other hand, the executive order did not include a decision to end free trade between the U.S. dollar and the Hong Kong dollar based on the *United States-Hong Kong Policy Act* of 1992. Major media outlets also reported that the Trump administration had been intentionally excluding the possibility of harming the Hong Kong dollar peg, as such might also have negative impacts on the U.S. itself. Market participants thus remain optimistic, expecting the U.S. dollar-Hong Kong dollar peg to be maintained, while funds from Chinese companies continue to flow into Hong Kong through the stock connect schemes, and this supports the Hong Kong dollar as well. However, the interest rate differentials between the Hong Kong dollar and the U.S. dollar have narrowed as a result of interventions by the Hong Kong Monetary Authority (HKMA) to provide liquidity, making it less attractive to invest in Hong Kong dollar carry trades and gradually weakening the upward pressure on the Hong Kong dollar. Also, the one-year Hong Kong dollar forward point fell significantly to approach the +100 point level. Therefore, even though market participants were actively selling the U.S. dollar worldwide, there was little reaction in the Hong Kong dollar spot exchange market.

Hong Kong interest rate market in July

In July, the Hong Kong dollar interest rates fell due to intervention by the HKMA to provide liquidity. As the HKMA intervened in the market by selling the Hong Kong dollar and buying the U.S. dollar, the aggregate balance approached the HKD 180 billion level—the highest level since February 2018. The one-month Hong Kong dollar HIBOR and the three-month Hong Kong dollar HIBOR fell to 0.25% and 0.45%, respectively, both reaching the lowest level in four years. Consecutively, the interest rate differentials between the U.S. dollar LIBOR and the Hong Kong dollar HIBOR narrowed to 10 basis points and 20 basis points, respectively. The Hong Kong dollar interest rate swap rate also fell, following the fall of the U.S. dollar interest rate swap rate.

2. Outlook for This Month

Hong Kong dollar spot exchange market in August

In August, the U.S. dollar/Hong Kong dollar exchange is expected to fluctuate within a range between HKD 7.7500 and HKD 7.7650 to the U.S. dollar with the support of active IPOs of Chinese companies. The tensions between the U.S. and China have been intensifying, and Chinese companies listed in stock exchanges in the U.S. are facing the risk of delisting. Under such circumstances, an increasing number of companies are considering the option of dual listing both in Mainland China and in Hong Kong. On the other hand, dividend returns to Hong Kong have slowed down, making it likely for the U.S. dollar/Hong Kong dollar exchange rate to fluctuate, moving away from the HKD 7.7500 level (the upper end of the fluctuation range for the Hong Kong dollar) in the next several months.

From a medium- to long-term point of view, the Hong Kong dollar is likely to remain pegged to the U.S. dollar. The robustness of the peg has been confirmed by the large amount of foreign currency reserves without concerns over pressure to sell the Hong Kong dollar. The HKMA would not be interested in changing the system either, as the peg has allowed Hong Kong to enjoy the status of acting as a financial hub in the Asian region. The major risk factor for the coming months is likely to be financial sanctions against Hong Kong imposed by the U.S. government. Even though the media has reported that the Trump administration excludes the possibility of harming the Hong Kong dollar peg for the moment, as mentioned above the tensions between the U.S. and China have been intensifying, leaving the collapse of the U.S. dollar peg as a remaining risk. If the peg system, which has been a stable system for the past 30 years, collapses, the Hong Kong dollar could depreciate dramatically.

Hong Kong dollar interest rate market in August

The liquidity level of the Hong Kong dollar market has been high, with an aggregate balance that increased rapidly to approach the HKD 180 billion, and this is likely to lead the Hong Kong dollar interest rates to fall further in August. On the other hand, however, this would not be a significant fall given that the interest rate differentials between the Hong Kong dollar and the U.S. dollar have been narrowing with weakening upward pressure on the Hong Kong dollar. There has been not as much demand as before for the Hong Kong dollar, due to IPOs, while seasonal demand for the Hong Kong dollar is also not likely to be high in August. Under such circumstances, the Hong Kong dollar interest rates are expected to fall, following the global trend of declining interest rates in a market with excessive liquidity.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – August 2020

Expected Ranges	Against the US$:	CNY 6.9000–7.2000
	Against the yen:	JPY 14.58–15.95
	Against 100 yen:	CNY 6.2600–6.8600

1. Review of the Previous Month

The U.S. dollar/Chinese yuan exchange rate fell in July.

At the beginning of the month, the U.S. dollar/Chinese yuan exchange market opened trading at around the CNY 7.06 level. The exchange rate fell rapidly thereafter to reach the CNY 7.02 level on July 6, following Mainland China's stock markets, which have been outperforming themselves since the beginning of the month. In addition to the strength of the Chinese stock markets, the widening interest rate differentials between the U.S. dollar and the Chinese yuan also kept the exchange rate from rising. Thus, the U.S. dollar/Chinese yuan exchange rate fell below the HKD 7.0 level on July 9 for the first time since March this year and continued falling to the lower-HKD 6.98 level.

Toward the middle of the month, the sharp rise of stock prices slowed down, while the media reported that U.S. President Donald Trump had signed a presidential executive order regarding the end of preferential treatment for Hong Kong. In reaction to this news, the U.S. dollar/Chinese yuan exchange rate returned to approach the HKD 7.02 level (on July 14). However, some media outlets reported thereafter that the People's Bank of China (PBOC) would put additional monetary easing on halt. As the Chinese stock markets also remained strong, the U.S. dollar/Chinese yuan exchange rate was kept from rising.

On July 22, the U.S. dollar weakened to the CNY 6.96 level. However, the media reported thereafter that China had closed its consulate in Houston according to a request from the U.S. In response to this headline, market participants anticipated further intensification of the tensions between the U.S. and China, leading the U.S. dollar/Chinese yuan exchange rate to rise sharply to the CNY 7.0 level. The media also reported on possible retaliatory action to be taken by China. As a result, the exchange rate rose to the CNY 7.02 level. However, this trend did not last long. In the end, toward the end of the month, the U.S. dollar/Chinese yuan exchange rate continued trading at around CNY 7.0 level.

2. Outlook for This Month

The U.S. dollar/Chinese yuan exchange rate is forecast to remain low in August.

In terms of fundamentals, there have clearly been downside risks in the U.S. dollar/Chinese yuan exchange market. It has been increasingly certain that the U.S. will continue monetary easing to the greatest extent ever observed, involving financial aid for expenses related to Covid-19. On the other hand, the dovish attitude of the Chinese monetary authorities has been weakening.

While actively providing funds in order to support economy, the Chinese monetary authorities have also been controlling excessive liquidity by setting up a particular interest rate according to the scale of target companies (i.e., an MLF [medium-term lending facility]) as well as by cutting the reserve requirement ratio (RRR) according to the scale of the bank. Moreover, the LPR (loan prime rate), announced monthly as the base lending interest rate, has remained flat for the third consecutive month. Along with the slowdown in monetary easing, a rise of interest rates would be tolerated in the short-term monetary market. As a result, Chinese government bond yields rose significantly in July, as the rise of interest rates has been accepted in the short-term money market. The Chinese economy has been recovering more rapidly than other countries, and this can also be a factor to support the Chinese yuan market.

On the other hand, as was the case with the media report on the closure of a Chinese consulate in the U.S., the Chinese yuan exchange market tends to react to geopolitical issues surrounding China. Given the current relationship between the U.S. and China, such geopolitical risks can lead the U.S. dollar/Chinese yuan exchange rate to move upward. On the other hand, it should also be mentioned that geopolitical issues have an impact on the market only for a short period of time and are not enough to create a trend in the market.

In the times ahead, there will be more political activities in the U.S. in preparation for the presidential election scheduled for November, such as the national conventions for both the Republican and Democratic parties scheduled for August. As the U.S. has been strengthening its attitude against China, market participants should remain prepared for a sudden escalation of geopolitical risks.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – August 2020

Expected Ranges	**Against the US$:**	**SG$ 1.3500–1.4000**
	Against the yen:	**JPY 76.00–78.00**

1. Review of the Previous Month

In July, the Singapore dollar appreciated against the U.S. dollar.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange rate remained at the mid-CNY 1.39 level and continued fluctuating within a narrow range until the middle of the month. On July 7, the stock market in the U.S. stabilized, in response to which Asian currencies appreciated. Following the trend, market participants also bought the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate temporarily fell to the lower-SGD 1.39 level. However, stock prices fell thereafter, due to the fact that the number of Covid-19 cases continued increasing in the U.S., which led the currencies of emerging countries to start depreciating. As a result, the U.S. dollar/Singapore dollar exchange rate rose to the upper-SGD 1.39 level again.

Thereafter, expectations grew for the EU Recovery Fund, which was discussed at an extraordinary summit meeting, while the media reported on positive results for a vaccination against Covid-19. Under such circumstances, the currencies of emerging countries rose. Market participants also bought the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate fell to the SGD 1.38 level.

Toward the end of the month, market participants sold the U.S. dollar with concerns over the increase of tensions between the U.S. and China, as well as with the actual impact of such on the economy. Under these circumstances, the currencies of emerging countries remained stable. Then, at the Federal Open Market Committee (FOMC) meeting held in the U.S. at the end of the month, the Federal Reserve Board (FRB) made a remark that it would take every possible means against the negative economic damage caused by the spread of Covid-19, which kept the U.S. dollar weak. There were many other factors causing the weakness of the U.S. dollar, such as the possible postponement of the presidential election as mentioned by U.S. President Donald Trump. As a consequence, the U.S. dollar/Singapore dollar exchange rate fell. At the current moment, the U.S. dollar/Singapore dollar pair has been trading below the SGD 1.37 level (as of July 31).

2. Outlook for This Month

The Singapore dollar is forecast to weaken against the U.S. dollar in August 2020.

In July, the Singapore dollar appreciated against the U.S. dollar. The U.S. dollar/Singapore dollar exchange rate reached the SGD 1.36 level, which is the all-time high for the Singapore dollar. Market participants should remain attentive to see if this trend will continue in the times ahead. It should also be mentioned that the Singapore dollar has been appreciating since the general election in Singapore held on July 10, but the appreciation has been observed mostly only against the U.S. dollar, and the Singapore dollar has been depreciating significantly against the euro.

The next monetary policy meeting in Singapore is scheduled for October, and many market participants expect the Nominal Effective Exchange Rate (NEER) to be cut again, as the U.S. dollar/Singapore dollar exchange rate has recently been falling. However, in terms of the basket of currencies, the euro has been appreciating against the Singapore dollar, keeping the Singapore dollar from appreciating further. Thus, the Monetary Authority of Singapore (MAS) may decide not to change the monetary policy, thus maintaining the interest rate. Furthermore, the manufacturing activities in Singapore have been stabilizing, thanks to recent export trends. This is considered to be mainly a result of the fact that Singapore has taken fiscal measures that protect the economy from long-term impact compared to other emerging markets—this is another reason why the Singapore dollar has been appreciating.

However, it seems that the U.S. dollar/Singapore dollar exchange rate has been falling (the Singapore dollar has been appreciating) too rapidly, and it would not be strange for the exchange rate to rise slightly, so as to adjust. From a medium-term perspective, the Singapore dollar is expected to follow the trends of the euro and the Japanese yen, depreciating slightly against the U.S. dollar.

Kazuhiro Suzuki, Bangkok Treasury Office, Asia & Oceania Treasury Department

Thai Baht – August 2020

Expected Ranges	**Against the US$:**	**THB 31.00–31.80**
	Against the yen:	**JPY 3.25–3.45**

1. Review of the Previous Month

The U.S. dollar/Thai baht exchange rate rallied in July.

In July, the U.S. dollar/Thai baht exchange market opened trading at the THB 30.90 level. In the first week of the month, the Joint Standing Committee on Commerce Industry and Banking made a downward revision on the GDP outlook for 2020 again (from a decline of 3–5% to a decline of 5–8%). Furthermore, the number of new Covid-19 cases continued increasing, and the U.S. dollar/Thai baht exchange rate rose to the THB 31.10 level. In the second week, Chinese stock prices continued rising, and this strengthened Asian stock markets. As a result, the U.S. dollar/Thai baht exchange rate fell to approach the THB 31 level. However, as some cities abroad decided to halt economic activities once again shortly after resuming them, market participants reconfirmed the negative impact of the Covid-19 crisis on the global economy. As a consequence, risk-averse sentiment grew, and market participants bought the U.S. dollar, leading the U.S. dollar/Thai baht exchange rate to rise to reach the THB 31.20 level. Thereafter, the exchange rate continued rising and reached the THB 31.30 level on July 10.

In the middle of the month, the governor of the central bank of Thailand, Veerathai Santiprabhob, made a remark on July 14 that the Thai economy would not return to the level before the Covid-19 crisis until 2022, as economic recovery would only be a gradual one. In addition, he made a remark to deny the introduction of a zero-interest rate policy. As a result, expectation for monetary easing faded away, leading the U.S. dollar/Thai baht exchange rate to rise to the THB 31.50 level. On July 16, important officials of Thailand, such as Deputy Prime Minister Somkid Jatusripitak and Finance Minister Uttama Savanayana, submitted resignation letters, fueling concerns over the political realm in Thailand and leading the U.S. dollar/Thai exchange rate to reach the THB 31.70 level. On July 20, market participants bought the U.S. dollar based on actual demand—this was observed on days of the month ending in "5" or "0," and thus the U.S. dollar/Thai baht exchange rate reached the THB 31.80 level.

Toward the end of the month, the media reported that the EU had agreed on the EUR 750 billion EU Recovery Fund, fueling risk-taking sentiment in the market. As a result, the U.S. dollar/Thai baht exchange rate fell to the THB 31.50 level. However, on July 22, the U.S. government ordered the closure of the Chinese consulate in Houston, Texas, against which China reacted fiercely and decided to close a consulate of the U.S. in China on July 23. The relationship between the U.S. and China worsened while the accumulative number of Covid-19 cases reached the four million mark in the U.S., with the figure continuing to increase. Under such circumstances, the U.S. dollar/Thai baht exchange rate reached the THB 31.70 level again during the weekend on July 24. Thereafter, the July PMI turned out to be stronger than expected in Europe and Germany, creating a contrast from the situation in the U.S., where Covid-19 cases continued to increase. Consequently, market participants started to buy the euro and sell the U.S. dollar. As the U.S. dollar thus weakened, the U.S. dollar/Thai baht exchange rate also fell to reach the THB 31.60 level, and weekly trading closed. After the weekend, the U.S. dollar weakened due to the above-mentioned situation, as well as due to growing cautious feelings regarding the Federal Open Market Committee (FOMC), and the U.S. dollar/Thai baht exchange rate fell to the THB 31.50 level despite the fact that Thailand had national holidays on July 27 and 28. After four consecutive holidays in Thailand, the U.S. dollar rallied slightly on July 29, as some market participants bought the U.S. dollar based on actual demand. However, after some U.S. dollar-buying, the U.S. dollar/Thai baht exchange rate fell to the THB 31.40 level. The U.S. dollar weakened further due to remarks by the FOMC to imply that the U.S. monetary policy would be maintained, along with a cautious economic outlook. Furthermore, the GDP of the U.S. for the second quarter was announced around the same time, with the largest decline ever recorded. As a result, the U.S. dollar/Thai baht was traded at around THB 31.20 at the end of the month.

2. Outlook for This Month

Although the U.S. dollar/Thai baht exchange rate is expected to continue rallying, the pace is likely to slow.

Since the beginning of April, at which the U.S. dollar/Thai baht exchange rate recorded the recent high, the Thai baht continued appreciating by approximately 7% until the end of June, at which the exchange rate recorded the recent low, recording the most-significant appreciation against the U.S. dollar among Asian currencies. On the other hand, since the end of July, market participants started to actively sell the U.S. dollar, and the U.S. dollar/Thai baht exchange rate fell, partially offsetting the rise recorded previously. However, as the Thai baht appreciated too rapidly and as market sentiment worsened thereafter due to the increasing number of Covid-19 cases, the Thai baht depreciated against the U.S. dollar in July from the level observed at the end of June.

In the middle of the month, the media reported positive news regarding the development of a vaccine against Covid-19 in the U.K. and the U.S. However, the vaccine would not be available for some time—until the beginning of next year. Although there will be more positive news coming about the development of the vaccine in August, the positive sentiment would not last long if the government continues to prioritize the economy and if the number of Covid-19 cases continues to increase as a result. Furthermore, as there are some countries in Europe where the number of Covid-19 cases started to increase again, such as Spain, the appreciation of the euro could slow down, which is likely to lead the U.S. dollar to strengthen as the base currency of the world.

It should also be mentioned that concerns are growing over the worsening relationship between the U.S. and China since the approval of the Hong Kong national security law, with the U.S. introducing sanctions against China, while China started taking retaliatory actions against the U.S. Even though the Phase 1 trade deal has been maintained, both countries forced the closure of a consulate of the other, demonstrating political opposition to each other, and, in the worst-case scenario, this could lead to a rupture of diplomatic relations. Should that happen, market participants would sell the currencies of emerging countries, changing the trend in the market where the Thai baht is currently strengthening against the weakening U.S. dollar. It should also be pointed out that there has been a constant capital outflow from the Thai stock market with higher risks, even though there was a net inflow both into the Thai government bond and stock markets from foreign investors in July. If the market sentiment worsens further in the times ahead due to the opposition between the U.S. and China, there could be capital outflow from the Thai bond market, in which market participants are currently investing in anticipating the end of the Covid-19 crisis. For the above reasons, the U.S. dollar/Thai baht exchange rate is likely to continue rallying in August, as was the case in July, although there are some factors to weaken the U.S. dollar. It should be pointed out, however, that the current U.S. monetary policy would be maintained as much as possible by the U.S. authorities. Given the figures in the recent U.S. economic indices, it is unimaginable for the Thai baht to depreciate significantly enough to lead the U.S. dollar/Thai baht exchange rate to fall once again to the THB 33 level—the same level observed at the beginning of April. Therefore, the appreciation of the U.S. dollar/Thai baht exchange rate is forecast to gradually slow at the upper-THB 31 level.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – August 2020

Expected Ranges	Against the US$:	MYR 4.2000–4.3000
	Against the yen:	JPY 24.40–25.00
	Against 100 yen:	MYR 4.0000–4.1000

1. Review of the Previous Month

In July, the U.S. dollar/Malaysian ringgit exchange market opened at the MYR 4.28 level after which the improvement in the domestic situation concerning Covid-19 led the exchange rate to fall to the MYR 4.25 level. Thereafter, risk-taking sentiment grew in the market, thanks to the fact that the crude oil price rallied, while there were some concerns over the second wave of the Covid-19 crisis, as well as the increasing tensions between the U.S. and China. With these mixed factors, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range between MYR 4.25 and MYR 4.27.

At the beginning of the month, the currencies of emerging countries in Asia depreciated due to the second wave of the Covid-19 crisis, as well as due to geopolitical risks. However, the domestic situation concerning Covid-19 was stable in Malaysia, and this kept the U.S. dollar/Malaysian ringgit exchange market stable as well. As global demand declined, the May trade statistics revealed a decline that was more significant than expected in both imports and exports. However, production activities resumed in China—the most-important trade partner for Malaysia—and this was a positive factor. The North Sea Brent futures price also recovered to USD 43 per barrel, which also led the U.S. dollar/Malaysian ringgit exchange rate to gradually fall. On July 9, the exchange rate reached its low in four weeks, at MYR 4.2570 to the U.S. dollar.

On July 7, the Malaysian central bank decided to cut the overnight policy rate (OPR) for the fourth consecutive time, bringing the rate to 1.75%—the lowest rate ever recorded since the introduction of the system in April 2004. The CPI index was around the –2.9% level year-on-year in both April and May, and this means that the so-called "actual" policy interest rate has still been above 4%. Also, the May industrial production index declined by 22.1% year-on-year—a less significant fall than the previous month. The central bank seems to have the intention to further accelerate the economic recovery.

However, in the middle of the month, the U.S. dollar/Malaysian ringgit exchange rate rallied to the MYR 4.27 level, as the crude oil price started to fall. In the market there were mixed factors, as the growing tensions between the U.S. and China surrounding the Hong Kong national security law and the increasing number of Covid-19 cases in the U.S. were fueling risk-averse sentiment, while expectations were also growing for a positive trial result regarding a vaccine for Covid-19. Under such circumstances, the U.S. dollar/Malaysian ringgit exchange rate remained at around the MYR 4.26 level toward the end of the month without moving into any direction.

At the end of the month, the U.S. Dollar Index continued falling for the fifth consecutive month, making it clear that the U.S. dollar was weakening. In the market, positive sentiment grew, thanks to the agreement on the EU Recovery Fund as well as due to the positive trial results of three vaccines for Covid-19, while the crude oil price was also rising. As a result, the U.S. dollar/Malaysian ringgit exchange rate also fell below the MYR 4.25 level on July 22. The North Sea Brent futures price also reached its high, at USD 44.89 per barrel. The June CPI turned out to be –1.9% year-on-year, and even though the result was weaker than the estimate, the figure turned out to be stronger than the –2.9% recorded in April and May. It has been commented that non-transportation expenditures, such as those made online, have been gradually recovering after economic activities resumed.

Due to the intensification of the tensions between the U.S. and China concerning them forcing the closure of a consulate of the other, the U.S. dollar/Malaysian ringgit exchange rate recovered to the MYR 4.26 level again toward the last week of the month. However, the trend was reversed thereafter, and the exchange rate fell to the MYR 4.24 level because of a guilty verdict for the former Prime Minister Najib Razak, as well as because of the June trade statistics, which turned out to be stronger than the estimate. As of July 30, the U.S. dollar/Malaysian ringgit pair has been trading at the MYR 4.24 level at the end of the month.

2. Outlook for This Month

In August, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate within the range between MYR 4.20 and MYR 4.30. While concerns over a global second wave of the Covid-19 crisis are likely to put some weight on economic recovery, the Malaysian ringgit has been supported by the depreciation of the U.S. dollar, the stable domestic situation regarding the spread of Covid-19, and the stability in the crude oil market. The U.S. dollar/Malaysian ringgit exchange rate is therefore not expected to move into any direction. On the other hand, the political situation remains uncertain, which is a factor for instability in the market.

On July 13, the Malaysian parliamentary session resumed (virtually) for the first time since the political changeover in February, and the bill to change the chair submitted by Prime Minister Muhyiddin Yassin on the first day was narrowly approved at 111 against 109. In terms of the number of seats in the assembly, the total of which is 222, there were 114 members to the side of the BANTUAN PRIHATIN NASIONAL ruling party and 108 members to the side of the Pakatan Plus opposition party. However, one of the ministers of the ruling party who used to be part of Pakatan Plus was absent, and opened votes revealed that two members in the ruling party had betrayed the party, making it clear that the ruling party did not obtain the majority of votes. However, the new chairman lowered the priority of the non-confidence motion led by former Prime Minister Mahathir Mohamad, and it is not certain if this will be discussed by the parliamentary session scheduled for the end of August. It should be mentioned that in the 1MDB case, the High Courts in Malaysia gave a guilty verdict for former Prime Minister Najib Razak on all seven items of prosecution.

The GDP number for the second quarter, which is considered to be the worst period for the Covid-19 crisis, is scheduled to be out on August 12. In the middle of March, the Malaysian government introduced a movement control order, which was eased to become a conditional movement control order in May and which was then further eased to a recovery movement control order in June. However, some local companies report that all production and settlement activities have been halted since the middle of March, making it inevitable to see a significant decline in GDP. However, based on the estimates made by the IMF and by various think tanks, such a decline has already been reflected in the market, and thus the reaction to the GDP announcement is likely to be limited in the foreign exchange market.

At the monetary policy meeting held on July 7, the central bank of Malaysia decided to additionally cut the policy interest rate by 0.25%, as had been anticipated in the market, and this means that the central bank has cut the interest rate every other month since January this year. There has also been inflow into the Malaysian government bond market from foreign investors in May and June, with expectations for an interest rate cut after recording significant outflow from February to April. As the inflation rate has already recorded a significant fall, if the GDP for the second quarter turns out to record a substantial negative fall, it is likely for the central bank to additionally cut the interest rate again in September in order to support individuals and small and medium-sized companies, as the inflation rate and the growth rate constitute important reference materials.

Capital flows from foreign investors are also expected to remain stable, thanks to expectations for an interest rate cut. Even though foreign direct investment in the business sector has still been sluggish, it is not very likely for the Malaysian ringgit to weaken significantly based on the supply & demand balance.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – August 2020

Expected Ranges	**Against the US$:**	**IDR 14,200–15,000**
	Against 100 rupiah:	**JPY 0.68–0.73**
	Against the yen:	**IDR 136.99–147.06**

1. Review of the Previous Month

In July, the U.S. dollar/Indonesian rupiah exchange rate did not move into any direction.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the lower-IDR 14,300 level. On the same day, the June CPI of Indonesia was released, and it turned out to be lower than 2%—falling below the target range set out by the central bank. While the market sentiment itself was rather positive, thanks to the stability of the stock markets in Europe and the U.S., the Indonesian rupiah remained weak. Then, the governor of the central bank of Indonesia made a remark during an online seminar held on June 27 that the central bank was ready to support the fiscal deficit of the government while sharing losses that resulted from expanding cases of Covid-19 infections. This confirmed the concerns of the central bank over fiscal financing, leading the Indonesian rupiah to depreciate against the U.S. dollar to the IDR 14,600 level toward the end of the week on July 3. In the following week, the central bank of Indonesia and the Ministry of Finance of Indonesia jointly announced an agreement on July 6 that the central bank would directly conduct transactions of Indonesian government bonds. The central bank of Indonesia will thus engage in a transaction of approximately IDR 400 trillion. However, the authorities announced that this is only a one-off and a temporary measure against Covid-19, and this strengthened the Indonesian rupiah against the U.S. dollar and the Indonesian rupiah recovered to the IDR 16,300 level toward July 9.

In the middle of the month, market participants anticipated an interest rate cut, as the outcome of the monetary policy meeting at the central bank of Indonesia was scheduled to be reported on July 17. As a result, the Indonesian rupiah depreciated again. By July 16, the Indonesian rupiah weakened against the U.S. dollar to the IDR 14,700 level. Under such circumstances, on July 17, the central bank of Indonesia decided to additionally cut the seven-day reserve repo rate, the policy interest rate of Indonesia, as was the case in the previous month, by 0.25% to 4.00%. Even though the majority of market participants had anticipated an interest rate cut, the depreciation of the Indonesian rupiah accelerated further after the announcement of this decision. On July 20, in the following week, the Indonesian rupiah depreciated to almost reach IDR 14,900 to the U.S. dollar.

At the end of the month, the media reported that multiple pharmaceutical companies had good results in their trials of vaccines for Covid-19, strengthening risk-taking sentiment among investors. As a result, the trend in the Indonesian rupiah exchange market was reversed, and the Indonesian rupiah rallied to the IDR 14,500 level on July 23. However, as the increasing tensions between the U.S. and China were intensifying, the exchange rate did not move into any direction thereafter, fluctuating at around IDR 14,500 against the U.S. dollar. Toward the end of the month, there were some market participants buying the U.S. dollar, slightly weakening the Indonesian rupiah. As of market closing on July 30, the U.S. dollar/Indonesian rupiah pair was trading at around the IDR 14,500–14,600 level.

2. Outlook for This Month

In August, the U.S. dollar/Indonesian rupiah exchange rate is not forecast to move into any direction.

The number of Covid-19 cases continues to increase in many countries, and the loosening of large-scale social restrictions has been repeatedly postponed in Indonesia as well, fueling concerns over impact on the economy. However, as was discussed in the article published last month, the central banks of many countries are providing liquidity in the market and with repeated interest rate cuts, supporting the prices of risk assets, including stocks. The Indonesian government bond and stock markets are not exceptions, and this added liquidity has been contributing to the stability of the Indonesian rupiah exchange market.

It should also be pointed out that the slowdown in economic activities in Indonesia led to a substantial decline in imports, resulting in a significant trade surplus and reducing downward pressure on the Indonesian rupiah as a result, as was the case in the previous month. Thus, the June trade balance of Indonesia recorded a large surplus, reducing the current account deficit and reducing downward pressure on the Indonesian rupiah.

In the times ahead, market participants may temporarily sell the Indonesian rupiah when risk-averse sentiment grows. However, as was mentioned above, it is not likely for a large amount of capital to flow out from risk assets, such as the stocks and government bonds of emerging countries. Given such circumstances, Indonesian rupiah-selling is likely to only be a temporary trend.

Factors of uncertainty in the times ahead include the direct transaction of Indonesian government bonds by the central bank announced in July. Since April this year, the central bank of Indonesia had been directly purchasing government bonds, but the amount was small, and the impact of this was minimal compared to other transactions in the market. However, this time, there has been an agreement on the direct transaction of Indonesian government bonds worth approximately IDR 400 trillion, by the central bank. The scale of the transaction is significantly larger than that carried out previously, while interest rates will also be paid by the central bank. Yet, this has not damaged the value of the Indonesian rupiah right away, as the amount of the transaction is still small compared to the GDP. It will be a one-off transaction, and there has been no change in the rating by ratings agencies. However, if the Covid-19 crisis lasts for a long time and if many similar actions are taken, it is undeniable that the Indonesian rupiah will depreciate in the long run, even though at this moment, it is only a risk scenario.

For the above reasons, the U.S. dollar/Indonesian rupiah exchange rate is not forecast to move into any direction in August.

Yoichi Hinoue, Manila Treasury Office, Asia & Oceania Treasury Department

Philippine Peso – August 2020

Expected Ranges	**Against the US$:**	**PHP 48.75–50.50**
	Against the yen:	**JPY 2.120–2.155**

1. Review of the Previous Month

In July, the U.S. dollar/Philippine peso exchange market opened trading at the PHP 49.76 level.

At the beginning of the month, the Philippine peso strengthened, thanks to expectations for the development of Covid-19 vaccines, as well as for the June employment statistics of the U.S., which turned out to be a positive surprise. Stock prices rose both in the U.S. and China, and this also supported the Philippine peso market. On July 7, the U.S. dollar/Philippine peso thus temporarily traded at PHP 49.30.

After market participants bought the Philippine peso and after the Philippine peso appreciated to some extent, the exchange rate was adjusted. The June CPI of the Philippines rose to 2.5% year-on-year (while the previous month's result was 2.1% and the market estimate was 2.2%), and this also encouraged market participants to buy back the U.S. dollar. As a result, the U.S. dollar/Philippine peso exchange rate reached PHP 49.63—the monthly high for the U.S. dollar—on July 8.

Thereafter, the SSE Composite Index continued rising for eight consecutive days, while the U.S. dollar/Chinese yuan exchange rate fell below the CNY 7 level for the first time in approximately four months, strengthening Asian currencies against the U.S. dollar. Following this trend, the Philippine peso also appreciated, and the U.S. dollar/Philippine peso exchange rate reached the PHP 49.30 level.

On July 13, local time, U.S. Secretary of State Mike Pompeo criticized China's maritime claims in the South China Sea, while the April amount of Overseas Filipino Workers (OFWs) remittances was announced on July 15, with a decline of 16.2% year-on-year (the largest decline ever recorded) to USD 2.05 billion. In response to these headlines, market participants sold the Philippine peso. However, the reaction in the market was limited, and the U.S. dollar returned only to PHP 49.60 on July 16.

Toward the end of the month, the European Union agreed on a summit meeting to establish the EU Recovery Fund of EUR 750 billion. In reaction to this, market participants bought the euro against the U.S. dollar, leading to a trend of U.S. dollar-selling in the overall foreign exchange market. As a result, the U.S. dollar/Philippine peso exchange rate reached PHP 49.27 on June 21.

In addition to concerns over the global spread of Covid-19 infection, the forced closure of consulates both in the U.S. and China occasionally weakened the Philippine peso, with growing concerns over the increase of tensions between the U.S. and China. However, once the U.S. Dollar Index fell to its lowest level since June 2018, pressure to sell the U.S. dollar strengthened in the U.S. dollar/Philippine peso market as well. After the Federal Open Market Committee (FOMC) meeting in the U.S., the Philippine peso reached its highest rate against the U.S. dollar since November 2016 at PHP 49.07 on July 30. In the end, monthly trading closed at PHP 49.15.

2. Outlook for This Month

It is difficult to expect the substantial appreciation of the Philippine peso, given the current situation with the trade deficit of the Philippines (increasing deficit after the reopening of economic activities), the decline in remittances from OFWs, and investment inflows from abroad that cannot be expected immediately under the "new normal." However, as of this writing, the Philippine peso has currently been trading against the U.S. dollar at its highest rate in three years and eight months.

There has been excessive U.S. dollar liquidity provided by the U.S. monetary authorities all throughout the Covid-19 crisis, due to which market participants are selling the U.S. dollar in the foreign exchange market, including the U.S. dollar/Philippine peso exchange market.

The U.S. Dollar Index rose to almost reach the 103-point level in March this year, when the global Covid-19 pandemic broke out, as market participants bought the U.S. dollar amid the emergency situation. Thereafter, market participants became aware of excessive U.S. dollar liquidity, leading the U.S. dollar to weaken. The U.S. dollar Index thus fell from the 96-point level to the 93-point level in the last two weeks.

Against other currencies, the U.S. dollar depreciated against the Australian dollar by 19%, against the British pound and the euro by around 10%, and against the Swiss franc by 7% from March when the U.S. Dollar Index reached its high.

The Asia Currency Index was 100 points in March, and it is currently 103.4 points, as of this writing. The Philippine peso has appreciated against the U.S. dollar by 3.6% during the same period. Thus, the U.S. dollar/Philippine peso exchange market has been following the Asia Currency Index.

It is understandable that Asian currencies are appreciating less rapidly compared to major currencies. However, it is possible for the Philippine peso to appreciate even further if market participants decide to buy Asian currencies against the U.S. dollar.

Junya Tagawa, India Treasury Office, Asia & Oceania Treasury Department

Indian Rupee – August 2020

Expected Ranges	**Against the US$:**	**INR 73.00–76.50**
	Against the yen:	**JPY 1.36–1.45**

1. Review of the Previous Month

In July, the U.S. dollar/Indian rupee exchange rate continued fluctuating and gradually falling.

At the beginning of the month, the U.S. dollar/Indian rupee exchange market opened trading at INR 75.515. Even though there was a surplus in the current account balance for the first time in 10 years, the impact of this in the foreign exchange market was limited. However, the market reacted to the employment statistics of the U.S. as well as the headlines related to progress in trials for vaccines that are currently being developed. In the afternoon of July 2, the U.S. dollar/Indian rupee exchange rate fell below the fluctuation range observed since March this year and rapidly reached INR 74.50. As foreign currency reserves recorded a slight decrease, investors with U.S. dollar long positions were reassured, leading the U.S. dollar/Indian rupee exchange rate to reach the monthly low at INR 74.47 after the weekend on July 6. However, the media reported that there had been intermittent interventions in the foreign exchange market—this pushed the exchange rate upward. On July 8, with some U.S. dollar short covering, the U.S. dollar/Indian rupee exchange rate recovered to the INR 75.00 mark. As a result, a cautious feeling grew in the market over possible foreign exchange market interventions again, while Indian stock prices reached their highest levels in four months, strengthening risk-taking sentiment in the foreign exchange market. However, the appreciation of the Indian rupee was limited. On July 14, the U.S. dollar/Indian rupee exchange rate retuned to INR 75.50.

However, on July 15, the following day, the media reported on the development of vaccines for Covid-19, and this reversed the trend in the U.S. dollar/Indian rupee exchange market and the exchange rate reached the INR 75.10 level again. On July 17, the exchange rate once fell below the INR 75.00 level. Then, on July 20, after the weekend, investors with U.S. dollar long positions started to sell the U.S. dollar, expecting the U.S. dollar/Indian rupee exchange rate not to remain at the INR 75 level, while the media reported on foreign bond issuance by Indian companies. As a result, market participants were encouraged to buy the Indian rupee.

When the Indian rupee appreciated, market participants anticipated foreign exchange market interventions and the INR 74.50 level was seen as a psychological turning point. Thus, the U.S. dollar/Indian rupee exchange rate continued fluctuating within the range between INR 74.55 and INR 74.85 toward the end of the month.

2. Outlook for This Month

In August, the U.S. dollar/Indian rupee exchange rate is forecast to remain low.

As has been discussed in the past two months, there was a net purchase of stocks and bonds worth USD 2.25 billion by foreign investors between July 1 and July 28. This figure confirms a vigorous investment appetite abroad, thanks to the Indian stock market, which has been at its strongest growth in four months. It should also be mentioned that Google in the U.S. announced its decision to invest USD 4.5 billion in a company under the Reliance group in India in July. While market participants certainly need to remain attentive of the situation surrounding the spread of Covid-19, it is most likely that capital inflow (leading to Indian rupee-buying) into India will continue in the times ahead.

In order to balance such a trend, the RBI (the central bank of India) is expected to buy the U.S. dollar through market interventions. Foreign currency reserves increased by more than USD 10 billion from the end of June, with USD 506.8 billion to USD 517.6 billion on July 17, offsetting the capital inflow from foreign investors discussed above with a remaining amount of foreign currency reserves. As was mentioned in the article published last month, market participants are thus unable to buy in fear of market interventions when the Indian rupee is appreciating. Thus, from a short-term perspective, market participants should continue carefully observing the attitude of the RBI to see whether the U.S. dollar/Indian rupee exchange rate can exceed the INR 74.50 mark.

Furthermore, the depreciation of the U.S. dollar is an essential external factor. The U.S. Dollar Index has been at its lowest level in two years due to the worsening relationship between the U.S. and China, the rapid appreciation of the euro, and growing expectations for monetary easing by the Federal Reserve Board (FRB). While the U.S. dollar has been depreciating in the foreign exchange market, market participants are buying the currencies of northern European countries and of resource companies, as well as the Swiss franc and the Japanese yen, against the U.S. dollar. While the U.S. dollar interest rate has been zero, if risk-taking sentiment grows in the market thanks to headlines such as progress in the development of a vaccine for Covid-19, it is possible for market participants to buy the currencies of emerging countries and those with a high interest rate against the U.S. dollar. Because the exchange rate is expressed in the ratio between the strength of the U.S. dollar and the Indian rupee, it is often the case that factors related to the U.S. dollar are more influential on the exchange rate.