Mizuho Dealer's Eye

October 2020

Mizuho Bank, Ltd.

Derivatives & Forex Department

Mio Ootani, Forex Sales, Derivatives & Forex Department

U.S. Dollar – October 2020

Expected Ranges **Against the yen: JPY104.00–106.50**

1. Review of the Previous Month

The dollar/yen pair traded in a range around 106 yen in the first half of September, though it dipped to the 104 yen range in the latter half of the month.

The pair opened the month trading at the upper-105 yen mark on September 1. Dollar selling peaked out on a sense of satisfaction after the euro/dollar pair hit $1.2. After several months of selling, the greenback was then bought as ECB officials voiced concerns about the euro's strength, so the dollar/yen pair moved firmly. The dollar was bought against the other major currencies, with the dollar/yen pair also hitting a monthly high of 106.55 yen on September 3. The greenback was then sold by real-demand investors, though, with short-term investors also selling back the unit, so the currency pair moved with a heavy topside. Stocks had moved bullishly in tandem with dollar selling, but they faced some adjustment from the latter half of the first week of September, so risk sentiments deteriorated slightly and the cross yen also fell, with the currency pair dropping from the mid- to the lower-106 yen level.

The trend spilled over into the second week, with the yen bought on risk aversion and the pair dipping to the upper-105 yen mark on September 8. However, the dollar was bought at a faster pace on September 9 on news that the UK government would be submitting a bill to parliament aimed at revising the Brexit agreement. With Dow futures and crude oil prices also rising on the previous day, the pair bounced back to the lower-106 yen level. At the ECB Governing Council meeting on September 10, ECB president Christine Lagarde said ECB members had agreed there was no need to overreact to the euro's strength. The euro was subsequently bought, with the dollar/yen pair also falling again to the upper-105 yen range, though it then rallied to the lower-106 yen mark on the bullish movements of the euro/yen pair.

In the third week, the pair fell to the lower-105 yen level on adjustive selling in the run up to the FOMC meeting. On September 16, the FOMC said it was not expecting any rate hikes until 2023, with the dollar/yen pair then falling to the upper-104 yen level. However, the dollar was then bought after the inflation outlook was revised upwards, so the pair returned to the lower-105 mark. On September 17, the greenback was sold on the bearish results of the US new applications for unemployment insurance and the August housing starts data, so the pair dipped back to the mid-104 yen level.

This trend continued into the fourth week, with the pair edging lower. Amid a dearth of Japanese investors on September 21, the pair temporarily hit the September low of 104.00 yen. However, the greenback was still bought against the other major currencies. It was also supported by buying after hitting its lowest level since the Covid-19 crisis began. As a result, the pair did not drop below the key 104 level and it then rallied. With US stocks also moving firmly and the cross yen rising, the pair bounced back to the upper-105 yen level.

2. Outlook for This Month

The dollar/yen pair is expected to trade with a heavy topside in October.

With the US, Japan and Europe making no noteworthy monetary policy shifts in September, attention will probably focus on the US presidential election, with voting set to begin on November 3. The vice-presidential candidates will be debating on October 7, with the presidential candidates set to hold their second and third debates on October 15 and October 22. Most reports suggest Joe Biden has the front foot at present, but some surveys show Donald Trump's support edging higher, so the situation will remain unpredictable going forward. The two candidates seem to take opposing views, with one calling for 'further tax cuts and protectionism' and the other for 'infrastructure spending and tax hikes,' but it is hard to see the greenback climbing higher whoever wins. However, given how the currency markets hate uncertainty, the dollar could be pushed lower if Mr. Biden seems more likely to win, so caution will be needed. Attention will also focus on the congressional elections. It seems the Democrats will maintain their majority in the lower house, while the Republicans could lose their Senate majority if they drop four seats. The elections could produce a divided government if the Democrats will the House of Representatives and President Trump is re-elected, for example, with the dollar then facing downward pressure on a sense of policy deadlock.

Furthermore, the FOMC reiterated its stance of maintaining zero interest rates into the long term when it meets in September. There continues to be an ample supply of dollars, a trend that began as a correction to the greenback's sharp rise on the Covid-19 outbreak. If the real economy shows signs of recovery, this will lead to a sense of excess dollar liquidity, with stocks likely to climb and the greenback to fall. FRB chair Jerome Powell also spoke about growing uncertainty about the future at the FOMC meeting and in his testimony to Congress on September 22, with Mr. Powell also commenting on the necessity of fiscal mobilization. Yet with the Republicans and Democrats at loggerheads in the run up to the presidential election, the strain caused by a lack of new economic policies will probably place pressure on the FRB to ease further. Based on the above, it seems the dollar/yen pair will move with a heavy topside, but the cross yen is unlikely to fall as long as stocks continue moving firmly. There will also be some buying by real-demand investors when the pair moves below 105 yen. As such, the pair is expected to move with a heavy topside in a range around 104–106.50.

Dealers' Market Forecast

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

Bullish on the dollar	13 bulls	107.50 – 104.00	Bearish on the dollar	8 bears	106.50 – 104.00

* Ranges are central values

Tanaka	Bear	107.00 – 104.00	Both sides are locked in a tight battle in the US presidential election, with the Senate also up for grabs. Things will remain up in the air until the results are out, with the dollar/yen pair set to trade with a lack of direction as observers monitor any faults at the debates.
Takeuchi	Bear	107.50 – 104.00	With the US presidential election looming, the dollar/yen pair will remain deadlocked. There is also a risk that the results might be delayed, so volatility will probably rise for a time. Investors will also need to monitor the second wave of Covid-19 in the US and Europe. The markets have yet to price in a suspension of economic activity, so the pair could be vulnerable on the down side.
Tsutsui	Bull	108.00 – 104.00	The dollar/yen pair will be swayed by the scale and timing of further fiscal mobilization in the wake of the US presidential and Senate elections. Institutional investors will find it hard to act in the face of numerous uncertainties, so the pair will probably be driven by moves to unwind the dollar short positions that have built up these past few months.
Kato	Bull	109.00 – 104.00	The dollar/yen pair will continue to be swayed by the US presidential election and the direction of US/China relations. Furthermore, Yoshihide Suga has only just become prime minister, so there are unlikely to be any major shifts when it comes to stance of the Japanese authorities. As such, it seems the pair will continue to trade in a range.
Yamagishi	Bull	107.50 – 104.00	With temperatures falling in the northern hemisphere, there are concerns about a second wave of Covid-19 infections and a slowdown in economic activity. Given this deep uncertainty about the future, the dollar will probably be bought as investors flee from the currencies of Europe and the emerging economies. The yen will also be prone to risk-evasive buying, so the dollar/yen pair will trade without any broad sense of direction.
Ushijima	Bull	107.00 – 104.00	Investors tested the dollar/yen pair's downside after it hit 104 yen at the end of September. However, real-demand selling eased off at the end of the month, with the pair set to see buying from here on. The greenback was sold against the other major currencies from May onwards, but this trend is also reversing, with the dollar/yen pair set to move firmly this month.
Tasaka	Bear	106.50 – 103.50	With the US presidential election looming in a month, the dollar/yen pair will be swayed by headlines, though it will move without a sense of direction on the whole. Amid a dearth of any particular factors, the pair could be hit by risk aversion if concerns grow about an economic slowdown on a renewed global Covid-19 outbreak, so caution will be needed.
Omi	Bull	109.00 – 104.00	The dollar will continue to be bought back at a gentle pace. This will be due to firm US stock movements and expectations for prolonged low interest rates and new fiscal policies. With one month remaining until the US presidential election, volatility might rise on opinion polls and public debates.
Ueno	Bear	106.50 – 104.00	The US presidential election is attracting more attention. Joe Biden has said he will raise taxes if he wins, while a sluggish fiscal policy response is on the cards of Donald Trump wins, so the dollar/yen pair will probably move with a lack of incentives. However, the pair could fall at a fast pace, so the risk probably lies on the downside.
Yamaguchi	Bull	108.00 – 104.00	Investors have focused on the prospect of a US economic slowdown on the renewed Covid-19 outbreak. A new lockdown is unlikely, though, with the US set to recover at a faster pace than other developed nations. However, with the presidential election looming, there could be some price movements, so caution will be needed.
Kai	Bull	107.00 – 104.00	The US presidential election is looming, but opinion polls will probably point to a Biden victory right up until election day. However, Donald Trump could spring an election day victory like last time. Given all this, it seems the dollar/yen pair is unlikely to be swayed much by election headlines. The yen might weaken slightly on expectations for new fiscal policies in the US.
Onozaki	Bull	108.00 – 103.00	It seems likely that Joe Biden will win the US presidential election, but volatility could grow considering what happened the last time around in 2016, so caution will be needed. With positions piled up to high levels, the dollar will probably be bought on the whole.
Tamai	Bear	106.50 –	With interest rates remaining low in the US, the dollar will remain prone to selling overall. There are concerns that the Covid-19 outbreak could pick up again as winter approaches. With uncertainty also growing about the US

		103.50	presidential election, the dollar/yen pair looks set to trade with a heavy topside.
Harada	Bull	107.50 – 104.00	Dollar short positions have accumulated to high levels. With US stock markets also moving firmly, the dollar/yen pair will probably rise this month. From October, though, the US presidential debate will kick off in earnest, so investors should be wary of growing volatility.
Oba	Bull	107.00 – 104.00	One month remains until the US presidential election. Opinion polls point to a Joe Biden victory, but the markets have yet to factor this in given what happened four years ago, with the dollar/yen pair set to remain deadlocked in October. There will be some movements around 105 yen, but the trend of US stock adjustment will probably ease off, with the pair's room on the downside capped.
Katoono	Bull	108.00 – 104.00	There are smoldering concerns about a renewed Covid-19 outbreak, but the dollar/yen pair will be supported by hopes for new fiscal policies in the US and elsewhere. With the US presidential election looming, there will be some volatility, so investors should monitor headlines.
Kobayashi	Bear	106.50 – 104.00	With the US presidential election looming in November, uncertainty is increasing, so the dollar will be a hard currency to buy, with the dollar/yen pair set to trade with a heavy topside. Furthermore, there are still no signs of improvement when it comes to the Covid-19 situation in the US. This will act as a negative factor for the greenback.
Matsumoto	Bear	106.50 – 104.00	The dollar remained attractive to investors last month, but uncertainty is growing with regards to the US presidential election and the likelihood of further fiscal mobilization. The markets will find it hard to price in the results of the US presidential election, with the dollar/yen pair set to move with a lack of direction.
Henmi	Bull	107.00 – 104.00	With the US presidential election looming, the dollar/yen pair will be swayed by related headlines. There is also considerable uncertainty about the policies of Joe Biden. These policies could lead to both dollar bullishness and dollar bearishness.
Otani	Bear	106.50 – 104.00	With the US presidential election looming in November, uncertainty is growing, so dollar buying is unlikely and the dollar/yen pair will probably move with a heavy topside. However, stock prices continue to move at highs, so the cross yen is unlikely to fall and the pair's room on the downside will probably be capped.
Okuma	Bull	107.00 – 104.00	There are concerns about the US presidential election and a US economic downswing. However, stock markets are moving bearishly on a renewed Covid-19 outbreak in Europe, so the dollar will probably be bought as a safe asset, with the dollar/yen pair set to trade firmly.

Yoshihisa Tanaka, Forex Sales, Derivatives & Forex Department

Euro – October 2020

Expected Ranges **Against the US$: US$1.1500–1.1900**
Against the yen: JPY121.00–125.00

1. Review of the Previous Month

The euro/dollar pair fell last month.

The pair began the month trading around $1.1920. The previous month's trend of dollar selling spilled over into September, with the pair moving firmly just below $1.20. It then hit the $1.20 range for the first time since May 2018 before climbing to a monthly high of $1.2014. This level saw selling to lock in profits, with the pair dropping back to around $1.1910. Euro selling continued on September 2, with the pair tumbling to the mid-$1.18 mark. The euro was sold at a faster pace and the pair fell to the upper-$1.17 level on September 3 on reports in a UK newspaper about further ECB easing. However, the greenback was then sold on falling US interest rates and bearish US stocks, so the pair rallied to the mid-$1.18 mark. The euro was pushed down on September 4 by the results of the US employment data for August, though the pair remained at the mid-$1.18 level.

With the US on holiday on September 7, the pair's movements were muted. Stock markets moved bearishly on September 8 on an increase in Covid-19 cases in Europe. The greenback was bought on risk aversion, with the pair dropping to the mid-$1.17 mark. The euro was bought and the pair climbed to the lower-$1.18 level on September 9 in advance of the following day's meeting of the ECB Governing Council. The meeting sprung no surprises, so the reaction of the markets was negligible. The pair then climbed to the lower-$1.19 range after ECB president Christine Lagarde signaled her tolerance for a strong euro, but it then fell to the lower-$1.18 level on growing concerns about a no-deal Brexit. The greenback was sold on September and the pair rose to just below $1.19 on September 14. It then hovered around this level as a wait-and-see mood prevailed ahead of the FOMC meeting.

The pair strengthened to the $1.19 range on September 15 on an unwinding of the trend of risk-off dollar buying, though this momentum eventually waned and the pair dropped back to the lower-$1.18 level. The greenback was bought again on September 16 as US interest rates rose, with the pair dropping below $1.17, though it then moved at the lower-$1.18 mark on some buy-backs. On September 17, the president of the European Commission hinted at a trade deal with the UK, so the pair moved firmly at the mid-$1.18 level. Amid a dearth of any noteworthy factors, the pair moved with a lack of incentives on September 18.

On September 21, ECB president Christine Lagarde voiced concerns about the euro's strength, so the pair dipped temporarily to the lower-$1.17 level. US stocks then pared back losses, so dollar buying eased off, though the pair failed to stage a comeback and it moved in the upper-$1.17 range. Amid concerns of a renewed Covid-19 outbreak in the UK, European currencies fell across the board on September 22, with the euro/dollar pair also dropping below $1.17. With US stock markets moving bearishly on September 23, sentiments remained subdued, so dollar buying continued and the pair tumbled to the mid-$1.16 level. It then traded at the $1.16 range on September 24 before hitting a monthly low of $1.1613 on September 25 on dollar buying.

Amid a scarcity of new factors, the pair moved firmly in the $1.16 range on September 28. The greenback was then sold on September 29 before a debate between the two US presidential candidates. The pair bounced back to the $1.17 range before climbing to the mid-$1.17 level. The closely-watched debate failed to yield any new factors on September 30, with the pair subsequently trading at lower-$1.17 mark.

2. Outlook for This Month

The euro/dollar pair rose up until early September, though this trend has eased off and the pair is undergoing some adjustment. With the US presidential election also looming, the pair will probably move skittishly while trading with a heavy topside. After moving bullishly until early September, the pair has since come under some adjustment on: the second wave of Covid-19 infections in Europe and the US; Brexit uncertainty; verbal interventions by ECB officials to curb the euro's rise; and dollar buy-backs after US real interest rates bottomed out and US stocks fell. The pair is now trading without a clear sense of direction.

The US presidential election is also looming. Though it seems Joe Biden will win, Donald Trump has a lot of silent supporters, so the race is probably neck and neck, with the result up in the air until the votes are counted. There are also whispers of a Democratic victory in the Senate, but this also remains to be seen. Things will remain unclear until the votes are out, but postal votes will also need to be counted, so if the counting drags on and the vote is very close, reports suggest the fight could go to the courts, so there is no telling when the final result will be out. Voters will be able to judge the two candidates at the two remaining debates scheduled for this month, with investors likely to remain in wait-and-see mode and the pair trading without a sense of direction.

In Europe, meanwhile, Covid-19 infections are on the rise again and there may be further lockdowns, with concerns growing about the impact on the economy. As for Brexit, the UK has passed the Internal Market Bill, a piece of legislation that goes against the agreement already signed with the EU. This has shaken trust between the two sides. Talks aimed at signing an FTA have been ongoing since the end of last month and there are hopes that an agreement will be reached by this month's EU heads-of-state meeting, but things don't look good. Furthermore, several ECB officials have made verbal interventions to curb the euro's strength in the face of concerns about falling inflation. The euro/dollar pair will be supported on the supply and demand front by Europe's trade surplus, but it will trade with a heavy topside on the factors listed above.

Dealers' Market Forecast

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

Bullish on the euro	1 bull	1.2100 – 1.1600	Bearish on the euro	20 bears	1.1900 – 1.1500

* Ranges are central values

Tanaka	Bear	1.1900 – 1.1500	The euro/dollar pair will continue to come under adjustment after its phase of bullishness. The US presidential election is difficult to call and the dollar will trade with a lack of direction in the run up. However, Europe faces fears of a renewed Covid-19 outbreak and a lockdown, concerns about a No Deal Brexit, and verbal interventions by ECB officials to curb the euro's rise. As such, the pair will trade with a heavy topside.
Takeuchi	Bear	1.2000 – 1.1500	The euro/dollar pair's topside will be held down by concerns of a renewed Covid-19 outbreak mainly in the US and Europe. The Brexit situation also remains up in the air, so it would be risky to try testing the pair's topside.
Tsutsui	Bear	1.1900 – 1.1100	Attention will focus on eurozone CPI indicators. If Covid-19 continues to spread and deflation progresses, this will lead to expectations for further ECB easing, or at least comments to this effect. Dollar short positions have piled up these past few months, so the pair will also be pushed down as investors unwind these positions.
Kato	Bear	1.1900 – 1.1400	The euro/dollar pair will continue to face some adjustment. At the root of this are corrections of speculative positions, but the pair will also move with a heavy topside on the heavy impact of Covid-19 in Europe compared to in Asia.
Yamagishi	Bear	1.1900 – 1.1500	The number of new Covid-19 infections in France and Spain is even outstripping the pace seen this spring. There are concerns that the economy could slump again on lockdowns and other restrictions, so the euro will be a hard currency to buy. There are also signs the EU might drag its feet when it comes to its budget and the recovery fund, with the dollar/yen pair's topside also held down by verbal interventions to curb the euro's strength.
Ushijima	Bear	1.2000 – 1.1600	Euro long positions have piled up, with the euro/dollar pair trading with a heavy topside after hitting the $1.20 range on September 1.With the number of Covid-19 cases increasing in Europe, investors will find it hard to actively buy the euro. With the pound and the Australian dollar also being sold on expectations for rate cuts, the dollar will be bought on a lack of alternatives.
Tasaka	Bear	1.1850 – 1.1500	The euro/dollar pair had trended upwards since mid-May, but this trend ended when the pair topped $1.2 last month With the Covid-19 situation worsening in the UK and the rest of Europe, the currency pair will probably trade with a heavy topside.
Omi	Bear	1.1800 – 1.1500	The euro will remain subdued. US stocks have risen on prolonged US low interest rates, with hopes also rising for further fiscal stimulus in the US, so investors will continue to buy back the dollar, with the euro/dollar pair's topside subsequently weighed down.
Ueno	Bull	1.2100 – 1.1600	With the economy moving weakly, Covid-19 on the rise again, the Brexit situation up in the air, and ECB officials verbally intervening to curb the euro's rise, the euro/dollar pair will continue to face a dearth of buying factors this month. However, the pair soon rallied last month whenever risk raised its head. Investors will buy the euro at times this month too, provided no new factors emerge.
Yamaguchi	Bear	1.1900 – 1.1500	The euro will trade with a heavy topside as investors focus on the second wave of Covid-19 infections in the US. The euro/dollar pair could fall further as economic activity slumps on a new lockdown, so caution will be needed.
Kai	Bear	1.1900 – 1.1500	The dollar will move bullishly for now on Covid-19 surge in Europe and concerns about a Hard Brexit. However, the Covid-19 outbreak is being contained in Germany, the country with the largest trade surplus in the eurozone. Based on this, the recovery fund and the 2021 growth rate, it seems the euro/dollar pair will be bought after a phase of adjustment. The pair could rise further if concerns about the Covid-19 outbreak eases off.
Onozaki	Bear	1.1800 – 1.1300	Europe had fewer Covid-19 cases than Japan and the US. Together with high hopes regarding the recovery fund, the euro was pushed higher. However, concerns are now growing about an economic slowdown on a renewed Covid-19 outbreak. With fears about a Hard Brexit also growing, the euro faces a dearth of buying factors.
Tamai	Bear	1.1900 – 1.1500	Europe is facing a second wave of Covid-19 infections, with some restrictions being placed on economic activity, so the euro/dollar pair will probably trade with a heavy topside. However, the US continues to maintain low interest rates, so dollar buying will be restricted and the pair's room on the downside will be capped.

Harada	Bear	1.1850 – 1.1500	The trend of dollar selling is easing off, while concerns about a Hard Brexit are growing on uncertainty about EU/UK talks. The euro/dollar pair will probably move with a heavy topside.
Oba	Bear	1.1850 – 1.1600	Funds have started flowing from the euro to the dollar and yen on the risk of a second wave of Covid-19 infections in Europe, so the euro/dollar pair will trade with a heavy topside. The situation is starting to weigh on economic indicators, with Germany posting a worse-than-expected CPI figure, for example. The euro will also be pushed down by the reimposition of some lockdown restrictions in the eurozone.
Katoono	Bear	1.1800 – 1.1650	The euro/dollar pair will continue to move with a heavy topside on the second Covid-19 wave. The euro will also be held down by concerns about a Hard Brexit. Amid a dearth of positive factors, the pair looks set to trend lower this month.
Kobayashi	Bear	1.1900 – 1.1500	After hitting the $1.2 range last month, the euro/dollar pair stopped rising. Will ECB officials also intervening verbally to keep the euro in check, it seems the pair will move with a heavy topside this month. Euro buying will also be negatively impacted by the renewed surge of Covid-19 in Europe.
Matsumoto	Bear	1.1850 – 1.1500	Covid-19 is on the rise again in Europe, while a sense of satisfaction filled the markets when the euro/dollar pair hit $1.2 last month, with the phase of adjustment likely to continue this month too. ECB officials have also intervened verbally to keep the euro in check. With Brexit concerns also bubbling away, investors will find it hard to actively buy the euro, so the pair will probably trade with a heavy topside.
Henmi	Bear	1.1800 – 1.1500	The trend of falling US interest rates and risk-evasive dollar buying has eased off, while the UK and EU remain far apart when it comes to the Brexit negotiations. The euro is unlikely to be boosted by hopes for a Soft Brexit, with the euro/dollar pair set to move bearishly.
Otani	Bear	1.1850 – 1.1500	The euro will be sold on concerns about a second Covid-19 wave in the eurozone. With the possibility of a Hard Brexit also still on the table, the euro/dollar pair will probably trade with a heavy topside.
Okuma	Bear	1.1900 – 1.1500	The euro is being weighed down by concerns of a prolonged economic slump on the second Covid-19 wave in Europe. The euro/dollar pair still has room further adjustment after rising to the $1.20 range, so the pair's downside will steadily edge lower.

Fumihiko Kanda, Europe Treasury Department

British Pound – October 2020

Expected Ranges	**Against the US$:**	**US$1.2400–1.3200**
	Against the yen:	**JPY129.00–140.00**

1. Review of the Previous Month

The pound fell in September.

With the greenback trending lower throughout August, the GBP/USD pair hit a monthly high of $1.3481 at the start of trading on September 1. This represented a peak, though, with the pair then pushed down by selling for profit taking. With the ECB also intervening verbally to curb the euro's strength, the single currency was also pushed lower, with the GBP/USD pair dragged down too. This unwinding continued thereafter, with the pair's gains from August subsequently pared back. On September 9, the UK government submitted the Internal Market Bill to parliament. This legislation would override part of the withdrawal agreement already signed with the EU, so sterling weakened on concerns about ruptured talks between the UK and EU. The unit was then bought back slightly, though it moved erratically on September 17. Though the Monetary Policy Committee (MPC) of the Bank of England (BOE) decided to keep policy rates fixed, sterling was sold on the announcement that the BOE had begun discussions with the financial authorities about negative interest rates. On the same day, though, European Commission president Ursula von der Leyen voiced optimism about a deal with the UK, so the pound's losses were soon pared back. The greenback strengthened in the week beginning September 21 on concerns about Covid-19. The pound continued to move erratically on September 22. It was sold when UK prime minister Boris Johnson announced some new restrictions to combat Covid-19, but it was soon bought back when BOE governor Andrew Bailey said it would take time to lay the ground for negative interest rates. Demand for the dollar intensified on news that the number of Covid-19 fatalities in the US had topped 200,000, with the GBP/USD pair hitting a monthly low of $1.2676 on September 23. On September 28, BOE deputy governor Dave Ramsden said he saw the floor for the BOE's policy rate at 0.1%. The currency pair rallied temporarily to the $1.29 range as a result, though it moved with a heavy topside when the EU poured cold water on the idea of renewed trade negotiations. With the UK and EU entering the final round of talks from September 29, the pair closed the month trading in the $1.28 range.

2. Outlook for This Month

The GBP/USD pair is expected to move with a heavy topside in October. Attention will focus on Brexit negotiations and the vicissitudes of global dollar demand.

The Brexit negotiations are once again entering a crucial stage. UK prime minister Boris Johnson has set October 15 as the deadline for talks, so if no agreement is reached by then, the two parties will have to press ahead without an FTA. The UK parliament has been deliberating the Internal Market Bill. This legislation overrides part of the withdrawal agreement already signed with the EU, so it has been condemned across the globe as 'breaching international law.' The EU have called for the bill to be revised by the end of September or the start of October to ensure it does not break any laws. Even if it is revised, the fact the UK government considered breaking international law will probably make it harder for the UK to sign FTAs with other countries. This could weigh the pound down.

Another key factor will be dollar demand in the face of Covid-19, like what we saw this summer. The number of cases is also rising in the UK, with lockdowns reintroduced in some regions. Other European nations are also facing a second wave and there are suggestions that the number of cases could top April peaks in Spain and France, for example. This will lead to stable dollar demand, with the GBP/USD pair pushed down accordingly. The US, India and Brazil continue to post a large number of fatalities. If investors focus on the Covid-19 risk in the US market, this could see US stocks falling and the dollar rising, with the currency pair falling sharply, so caution will be needed. If headlines suggest the Covid-19 situation is calming down, though, this will lead to dollar depreciation and pound appreciation.

The UK’s current furloughing scheme will wind down at the end of October. On September 24, UK chancellor Rishi Sunak announced a new package of support, though the scale has been pared back (this package will last six months).Though the ending of the current support will not come as a big shock, the ripple effect on unemployment rate and retail indicators will cause instability from next month onwards. This could prompt the BOE to consider negative interest rates. Market participants should monitor PMIs and other leading indicators.

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

Australian Dollar – October 2020

Expected Ranges	**Against the US$:**	**US$0.6900–0.7400**
	Against the yen:	**JPY74.00–78.50**

1. Review of the Previous Month

The Reserve Bank of Australia (RBA) kept the cash rate fixed at 0.25% on September 1. The Term Funding Facility was also expanded to AUD200 billion and extended to June 2021. The move aimed to lower borrowing costs and boost market lending. The greenback was sold on the FRB forecast for prolonged low interest rates, while China also released some bullish indicators, but with Australia releasing a worse-than-expected 2Q GDP figure on September 2, the AUD/USD pair fell to the lower-$0.73 mark. It continued falling on September 3 after Australia's July trade balance dipped below expectations. The greenback faced some adjustive buying the following day before the release of the US employment data, so the pair weakened to the upper-$0.72 level. The US released some bullish August employment data on September 4, so the greenback was bought and the pair slid to the lower-$0.72 mark. However, with the US jobs market undergoing a slight recovery, a sudden policy shift grew less likely and it seemed the US would maintain low interest rates for a prolonged period. This led to speculation about a return to the trend of US dollar bearishness, so after a round of US dollar buying, the AUD/USD pair bounced back to around $0.73.

The pair traded around $0.72 in the second week. It plummeted to $0.7211 on September 8 on plunging crude oil prices. The RBA then told Australian banks to buy up to AUD240 billion of government debt to ensure enough liquidity in times of emergency. The day's trend spilled over into September 9, with the pair breaking through the $0.72 mark. The US released some data related to new applications for unemployment insurance on September 10. This suggested the economic recovery was slowing, so the greenback was sold at a faster pace and the pair hit $0.73.

The pair floated around $0.73 in the third week. The minutes to the RBA board meeting were released on September 15. They were much the same as before, so expectations for further rate cuts waned. The pair then rose to around $0.7340, with the Australian dollar supported by bullish Chinese indicators. As expected, the FOMC predicted there would be no rate hikes until 2023 when it met on September 16, with four members expecting a rate hike in 2023. The inflation rate forecast through to 2022 was also revised upwards. The US dollar was subsequently bought, with the currency pair falling to the upper-$0.72 mark, though it then bounced back to the $0.73 range on the bullish Australian employment data for August. However, the rise in the number of people in work was mainly due to an increase in part-time workers, for example, so the data was read as not being that impressive, with the pair dipping back as a result.

The pair fell sharply from the $0.73 range to the $0.70 range in the fourth week. It dropped to around $0.72 on September 21 on risk aversion. On September 22, RBA deputy governor Guy Debelle talked about several measures to achieve employment and inflation targets. These included purchasing government bonds with longer maturities, intervening in the currency markets, cutting interest rates, and introducing negative rates. This led a regional Australian bank to predict that the RBA would lower its targets for the cash rate and the 3-year bond rate by 0.10% or more in October or November (they both currently stand at 0.25%), with expectations for further easing growing. With Australia's August retail sales figure also falling sharply below the preliminary figure, the pair tumbled to the mid-$0.70 range. The pair fell further on risk aversion after a US treasury official stressed the necessity for a new fiscal stimulus package. On September 25, the greenback was bought and the pair weakened to $0.7006 on news that House of Representatives speaker Nancy Pelosi and US treasury secretary Steven Mnuchin had agreed to reopen talks on a compromise plan for further economic stimulus.

In the last week, a major Australian bank had predicted that the RBA board would implement a rate cut when it met in October, but this forecast was now pushed back to November, so the pair was supported on the downside and it returned to the $0.71 range on September 28.

2. Outlook for This Month

Following RBA deputy governor Guy Debelle's speech late September, several major banks predicted that rates would be cut in October or November, with the AUD/USD's topside being held down by this speculation. If the RBA institutes a 15bp rate cut, then the Australian dollar's rate will be adjusted lower in the short term, but the Australian dollar's real interest rate (=nominal rate minus the inflation rate) is still slightly higher than the equivalent rate in the US, so the currency pair is expected to trend steadily upwards. There are also deep-rooted expectations that US rates will remain low for a prolonged period. It is hard to imagine the FRB acting swiftly to ease further in the month remaining until the US presidential election, so the pair will be supported on the downside to a certain extent.

The RBA board's monetary policy announcement and the Australian federal budget proposal will be released on October 6. Investors will be monitoring the budget proposal so see what economic stimulus measures it includes and whether it will boost risk sentiments. The Australian Prudential Regulation Authority (APRA) will be announcing new emergency liquidity rules after the budget proposal is released. It seems APRA and the RBA will tell Australian banks to buy up to AUD240 billion of new government and state debt. A glance at the market reaction to recent moves to recommence asset purchases and so on reveals a lack of selling on new easing measures, with the Australian unit being bought on hopes for an economic recovery on further economic stimulus measures, so if the RBA announces an expansion of its asset purchasing program, for example, investors will probably react by buying the Australian dollar. If the RBA cuts rates, though, this could lead to volatile trading, so market investors should be on guard against sharp movements.

Reiko Kanemoto, Canada Office, Americas Treasury Department

Canadian Dollar – October 2020

Expected Ranges **Against the US$: C$1.3000–1.3600**
Against the yen: JPY76.00–83.00

1. Review of the Previous Month

The USD/CAD pair opened September trading at C$1.3047. It hit a monthly low of C$1.2996 on September 1 and a monthly high of C$1.3416 on September 25. The greenback began falling on concerns about soaring US stock markets and the second wave of Covid-19 infections in Europe. The USD/CAD pair essentially returned to its level from before the Covid-19 outbreak.

The US and Canadian employment data was released on September 4. As broadly expected, the number of people in work in Canada rose by 246,000 in August, with the unemployment rate coming in at 10.2%. The US unemployment rate hit 8.4% in August, a sharp improvement on the market forecast of 9.8%. With the nonfarm payrolls figure also beating expectations, the data was read as positive on the whole. The greenback rose directly after these announcements, but with stock prices recovering after a temporary slump, a sense of relief swept the markets, with the currency pair bouncing back to C$1.3050.

Crude oil prices (WTI) fell sharply toward the weekend and they dropped below $37/barrel at the start of the following week, on September 8. This was due to several factors, such as sluggish recovery in crude oil demand in Asia, the end of the summer driving season, and increased output by the major oil-producing nations. With US stocks also sliding, the USD/CAD pair temporarily rose to C$1.3255. As expected, the Bank of Canada (BOC) kept the policy rate fixed at 0.25% when it met on September 9. There were no major policy shifts, with the accompanying statement saying that "the Governing Council will hold the policy interest rate at the effective lower bound until…the 2 percent inflation target is sustainably achieved…the QE program will continue until the recovery is well underway and will be calibrated to provide the monetary policy stimulus needed to support the recovery and achieve the inflation objective." The BOC also gave a slightly optimistic outlook for the third quarter, with its forecast for a Canadian economic recovery brought forward from the forecast made in July. The Canadian dollar was bought as a result, with the currency pair tumbling to the C$1.31 range. The markets were then swept by a barrage of news about hurricanes in the US, rising crude oil prices, hopes for the development of a vaccine, and the scrapping of aluminum tariffs between the US and Canada. With the FOMC meeting also looming, the pair moved in a range from C$1.3150–C$1.32.

When the FOMC met on September 16, it said interest rates would remain at zero for a prolonged period. It also predicted inflation would not recover to 2% until the end of 2023. US stocks rose and the US dollar fell on this dovish prognosis, but the greenback bounced back after FRB chair Jerome Powell made no mention of further easing in his subsequent press conference. The markets switched into risk-off mode on September 21 on the second Covid-19 wave in Europe and the ongoing bearishness of US stock markets, with the currency pair temporarily hitting C$1.3310. In a speech about his legislative agenda on September 23, Canadian prime minister Justin Trudeau said the government would provide ongoing and expanded support for individuals and businesses, with one million jobs created by direct government investment going forward. In July, Mr. Trudeau had already forecast that Canada's budget deficit would hit a post-war high of C$343.2 billion this fiscal year. The Canadian dollar weakened after the speech, with the currency pair climbing to C$1.3384. Risk aversion then rose on concerns about a global resurgence of Covid-19 and US/China frictions, with the pair trading around C$1.3340–C$1.34 as of September 28.

2. Outlook for This Month

The USD/CAD pair is expected to move between C$1.30–C$1.35 in October. Crude oil prices have recovered and the Canadian economy has steadily improved on the whole since late April, but the pace of the economic indicator recovery is now slowing. Average daily Covid-19 infections have also increased in Canada since mid-September, with the government sounding the alarm. The government has already taken several steps, though, including lowering the number of people who can congregate together, ordering restaurants and bars to close earlier, and implementing tougher fines, so the situation has yet to develop into a full-blown second wave. The BOC will be meeting to set policy rates on October 28, but it will probably keep rates fixed, with no major shifts in tone expected compared to the September meeting.

Though demand for crude oil prices bounced back at one point, the pace of this recovery is slowing. Amid sliding demand and excess liquidity, it is hard to imagine crude oil prices surging back to pre-Covid levels. Prices are expected to remains around $40/barrel throughout October.

As of September 25, it still seems that Joe Biden will win the US presidential election. Even if this does happen, he is unlikely to shift away from the policy of protecting US manufacturing. He may adopt a more conciliatory stance, but with Covid-19 still raging, he will probably not change tack sharply when it comes to trade policy with Canada (such as tariffs). Furthermore, though Mr. Biden has voiced opposition to the KeystoneXL pipeline, construction has already been put at hold under the current Trump administration and there has been no significant progress, so the launch of a Biden administration is unlikely to have a direct and immediate impact on the Canadian economy. In fact, relations with China and Covid-19 measures in the US will probably impact the USD/CAD pair more going forward.

Economic indicators suggest the recovery is slowing in other areas as well as Canada. However, the Canadian unit is unlikely to be bought given concerns about a second Covid-19 wave, risk aversion on US/China tensions, and a lack of expectations for rising crude oil prices. As such, the currency pair looks set to move in the lower-C$1.30 range. If the economic recovery does not proceed as expected in the mid- to long-term, the Canadian dollar will probably be pushed lower by deteriorating Canadian government finances.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – October 2020

Expected Ranges	**Against the US$:**	**KRW1,160–1,210**
	Against the yen:	**JPY8.696–9.174 (KRW100)**
		(KRW10.900–11.500)

1. Review of the Previous Month

The USD/KRW moved with a heavy topside in September.

The pair opened the month trading at KRW1186.1 on September 1. The euro/dollar pair then hit $1.2. This was met with a sense of achievement, so the trend of global dollar bearishness eased off, with investors then testing the USD/KRW pair's topside. A risk-off mood prevailed when US stocks fell sharply on September 4. With the KOSPI also falling, the USD/KRW pair hit a weekly high of KRW1192.7. With the ECB Governing Council meeting looming, the markets remained in wait-and-see mode over September 7–10. During this time, the currency pair moved with a lack of incentives in its established range of KRW1180–1190. The dollar was sold slightly after the meeting, though the pair remained in the KRW1180–1190 range. The pair opened September 14 trading at KRW1187.0. The level of social distancing (introduced to tackle the Covid-19 outbreak in South Korea) was then lowered from 2.5 to 2.0. The markets reacted warmly to this and the pair tumbled as a result. The greenback was then sold and stocks rose during overseas trading time on expectations for further easing by the FOMC. On September 15, the currency pair dropped below its resistance line of KRW1180. When the FOMC met during the early morning of September 17, it suggested rates could be kept at zero until 2023. In his press conference, though, FRB chair Jerome Powell hinted that further economic stimulus measures would be needed for the economic recovery, so market attention shifted to plans for further economic stimulus in the US. The Democrats and Republicans remained at loggerheads over a new economic stimulus package, though, so stocks fell and the greenback was sold on a sense it would take time before any package emerged. On September 18, the USD/KRW pair fell to KRW1160.1 as long positions underwent some loss cutting. This trend continued on September 21, with the dollar sold and the pair tumbling to a monthly low of KRW1157.2. However, market sentiments deteriorated sharply on the prospect of the UK re-introducing lockdowns in the face of a renewed Covid-19 outbreak, with sentiments also hit by reports of money laundering at several banks. The greenback was bought as a result, so although the won was bought at the month's end, the USD/KRW pair nonetheless rose higher. It then floated around KRW1170 before closing the month at KRW1169.5.

2. Outlook for This Month

The USD/KRW pair is expected to move somewhat firmly in October.

The main market drivers will be the new economic stimulus package and the presidential election in the US together with news about the development of a vaccine. The second Covid-19 wave is being controlled in South Korea. There were concerns that the domestic economic recovery might slow by concerns about raising the level of social distancing, but these concerns are now waning. In the US, though, the Democrats and Republicans remain at loggerheads over a new economic stimulus package. There are also disagreements between the Republicans and President Trump, so it will probably take some time to reach an agreement. The markets are expecting President Trump to permit a package of up to around $1.5 trillion. Unless the package ends up larger than this, any announcement will probably be met with some disappointed selling. The markets have also priced in the development of a vaccine within 2020, so if reports suggest more time will be needed, this could lead to risk aversion, with caution needed. Europe continues to be swept with a second wave of Covid-19 infections too, with the UK looking at reimposing lockdowns. The markets have probably factored this in to a large extent, but if restrictions end up tougher than expected, this could lead to even more risk aversion, so investors should monitor events closely.

Market participants will remain in wait-and-see mode when it comes to monetary policy in the US and South Korea. The FRB has suggested it will continue easing until it hits average inflation of 2%, but FOMC members expressed skepticism about yield curve controls, so for now the FRB will probably pursue easing by tweaking the buying conditions of the asset purchasing program introduced to tackle Covid-19. When the Bank of Korea (BOK) cut rates on May 28, the BOK governor said policy rates were nearing the effective lower bound. When the BOK met on August 27, it lowered its 2020 growth forecast from -0.5% to -1.3%, but it continued to adopt a cautious stance with regards to further easing, so the USD/KRW pair is unlikely to fluctuate significantly on factors related to monetary easing.

Under these circumstances, the greenback will be bought on a general mood of risk aversion, with the USD/KRW pair set to move firmly. However, when the pair approaches KRW1200 (a price many regard as a ceiling), a sense that the pair is now at a good level will probably lead to substantial real-demand won buying. The pair will probably fall in the long term on a sense of excess dollar liquidity. This is a further reason why the pair will probably not top KRW1200.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – October 2020

Expected Ranges	**Against the US$:**	**NT$28.90–29.30**
	Against the yen:	**JPY3.58–3.65**

1. Review of the Previous Month

The USD/TWD pair hit its lowest point in seven years and eight months in September.

The pair opened the month trading at TWD29.530. September marked the end of the quarter. Exporters faced strong pressure to sell the greenback at the start of the month. There were some substantial overseas remittances, but the pair nonetheless moved with a heavy topside. With dividends on overseas investments also being repatriated and the overseas NDF market falling sharply, the currency pair edged lower to drop to around TWD29.300.

Investors grew wary about the strength of the Taiwan dollar in the middle of the week, with exporters selling the greenback at a faster pace. Taiwanese stocks rose on September 16, with the Taiwan Capitalization Weighted Stock Index temporarily hitting 13,000 points. This also supported Taiwan-dollar buying, with the USD/TWD pair tumbling to around TWD29.130. Stocks stopped rising, but the Taiwan dollar continued to climb. On September 18, the currency pair temporarily fell to TWD29.017, its lowest point in around two-and-a-half years.

This trend continued in the latter half of the month. On September 21, the pair broke below TWD29.000 to hit TWD28.935, its lowest point in around seven years and eight months. However, US hi-tech stocks then fell, with Taiwanese equities also pulled down on successive days. This prompted overseas investors to sell the Taiwan dollar. The pair subsequently bounced back to around TWD29.270. As the end of the month approached, though, exporters sold the greenback again, so the pair dropped below TWD29.000 again.

2. Outlook for This Month

The USD/TWD pair is expected to trade in a range in October.

September marked the end of the quarter, with exporters facing pressure to sell the greenback, but this trend look set to ease off in October.

The Taiwan dollar has moved bullishly since April. Exporters have slipped into wait-and-see mode at times, but they were pressed to sell the US dollar in June and September (at the end of the 2nd and 3rd quarters), with the Taiwan dollar rising sharply as a result. If this trend continues, the phase of Taiwan-dollar bullishness will ease off for a time in October. However, with December marking both the end of the quarter and the end of the year, the Taiwan unit could rise even further, so caution will be needed.

The question now is whether exporter real demand will continue from here on. A glance at trade trends shows the export amount rising by +8.3% y-o-y in August, while export orders (a leading indicator) also rose by +13.6% y-o-y, with both indicators hitting highs for August. Exports of electronic parts and so on remain brisk on the rise of teleworking due to Covid-19, with Chinese companies also ramping up their orders before the imposition of export restrictions by the US.

Taiwanese exports have been positively impacted by Covid-19 and US/China frictions. Even if a Covid vaccine is developed, it will take time to roll it out, so the shift to teleworking is unlikely to undergo any substantial reversal for now. Furthermore, Joe Biden is also no friend of China's, so even if he wins the US presidential election, this is unlikely to lead to a sudden thawing of US/China relations. As such, these factors will continue to push the Taiwan dollar higher.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – October 2020

Expected Ranges	**Against the US$:**	**HK$ 7.7500–7.7550**
	Against the yen:	**JPY 13.25–13.75**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in September

In September, there was strong demand for Hong Kong dollar, thanks to the fact that IPOs remained active in the Hong Kong stock market. As a result, the U.S. dollar/Hong Kong dollar exchange rate continued fluctuating around the HKD 7.75 level.

Many Chinese companies that are listed in the U.S. stock market started a dual listing in their home county. Furthermore, a major Chinese FinTech company has a scheduled listing on both the Shanghai and Hong Kong stock markets that would involve USD 35 billion of procurement (according to the latest media report, the company aims to procure USD 17.5 billion, half the amount, in Hong Kong). In order to protect the U.S. dollar peg, the Hong Kong Monetary Authority (HKMA) intervened in the market by selling the Hong Kong dollar and buying the U.S. dollar many times. Despite the sharp fall in stock markets worldwide, transactions to purchase Chinese high-tech-related stocks through the Stock Connect scheme (a scheme to allow mutual transactions in the stock market with mainland China) have been increasing since the beginning of the year.

It should also be mentioned that the interest rate differentials between the Hong Kong dollar and the U.S. dollar have been widening, and the carry trade through U.S. dollar-selling and Hong Kong dollar-buying has not yet become active again.

Hong Kong interest rate market in September

As the U.S. dollar/Hong Kong dollar exchange market remained stable in September, the HKMA increased interventions in the exchange market by selling the Hong Kong dollar, leading the aggregate balance of the HKMA to reach its highest level in three years, at HKD 242.6 billion. Despite the Hong Kong dollar liquidity supplied in the market, the Hong Kong dollar interest rates rose as a result of capital demand for IPOs as well as seasonal factors observed at the end of a quarter period. Thus, the one-month Hong Kong dollar HIBOR exceeded 0.50% for the first time since June this year. The three-month Hong Kong dollar HIBOR also reached 0.65% for the first time in two months while the three-month U.S. dollar LIBOR reached its all-time low at 0.2225%, leading the HIBOR-LIBOR spread to exceed 40 basis points. Thereafter, the Federal Reserve Board (FRB) introduced a target inflation rate at an average of 2%. However, there was little impact on long-term Hong Kong dollar interest rates.

2. Outlook for This Month

Hong Kong dollar spot exchange market in October

Given that the tension between China and the U.S. has been intensifying, Chinese companies are likely to continue IPOs in China, in their home country, until the end of the year, keeping the U.S. dollar/Hong Kong dollar exchange rate at around HKD 7.7500 for several months ahead. On the other hand, the currently rising high-tech-related stocks may depreciate, leading to a fall of the Hang Seng benchmark index. Therefore, it is possible for the capital flow into the Hong Kong stock market through the Stock Connect scheme to decrease in the times ahead.

According to some media reports, the U.S. government will release a list of sanctions against banks in Hong Kong in mid-October based on the *Hong Kong Autonomy Act*. Thus, the feeling of uncertainty regarding U.S. sanctions against banks in Hong Kong may worsen investor sentiment. Indeed, U.S. President Donald Trump may take unexpectedly rigorous actions against China on Hong Kong-related issues in order to gain support to be re-elected at the U.S. presidential election scheduled for November 3.

Rigorous sanctions against banks in Hong Kong would impact the monetary markets in Hong Kong, raising volatility in the Hong Kong dollar exchange market. However, the U.S. dollar peg is likely to remain for the time being, as restrictions on the peg system may result in negative outcomes by lowering the status of the U.S. dollar as the base currency.

Hong Kong dollar interest rate market in October

In October, the Hong Kong dollar interest rates are expected to temporarily fall, as there will be no more seasonal factors characteristic to the end of a quarter period. However, the IPO of a major Chinese FinTech company is scheduled, with a target of USD 17.5 billion (HKD 131 billion) to be procured, which is likely to keep the Hong Kong dollar interest rates from falling significantly. As a result of the Hong Kong dollar liquidity supply by the HKMA, the Hong Kong dollar aggregate balance has reached HKD 242.6 billion—the highest level in three years—keeping the Hong Kong dollar liquidity level high. From a medium-term perspective, the Hong Kong dollar interest rates are likely to fall, following the U.S. dollar interest rates, as the FRB suggested the possibility of not raising the interest rate until the end of 2023 under new average inflation targeting strategy. However, if the U.S. imposes sanctions against banks in Hong Kong that are stricter than currently expected, it may lead to a capital outflow from Hong Kong, raising the Hong Kong dollar interest rates.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – October 2020

Expected Ranges	**Against the US$:**	**CNY 6.7000–6.9500**
	Against the yen:	**JPY 15.00–16.00**
	Against 100 yen:	**CNY 6.2500–6.6700**

1. Review of the Previous Month

In September, the U.S. dollar/Chinese yuan exchange rate fell once and returned to the level observed at market opening.

The U.S. dollar/Chinese yuan exchange market opened trading at the CNY 6.84 level in September, and, with the downtrend continued from August, the exchange rate approached its low at around CNY 6.81 on September 1. The Chinese yuan reached its highest rate against the U.S. dollar since May last year.

The fall of the exchange rate slowed down thereafter, and on September 7, U.S. President Donald Trump argued for a special tax on U.S. companies operating in China, worsening risk sentiment related to the tensions between the U.S. and China. As a result, the Chinese yuan depreciated, and the U.S. dollar/Chinese yuan exchange rate once recovered to the CNY 6.85 level on September 9.

However, in the middle of the month, major economic indices of China for August (industrial production, retail sales, and fixed-asset investment in urban areas) were released on September 15, revealing strong figures for all of them. Furthermore, market participants speculated that the forward guidance may be revised to be more dovish at the Federal Open Market Committee (FOMC) meeting in September, and this led the U.S. dollar to depreciate against the Chinese yuan again. Also, the U.S. dollar/Chinese yuan exchange rate fell below the CNY 6.80 mark, after which it continued falling in an accelerated manner to approach the CNY 6.75 level.

After the FOMC meeting, the U.S. dollar/Chinese yuan exchange rate started to rise as a result of short covering, as well as transactions, before National Day of the People's Republic of China. As a consequence, on September 24, the U.S. dollar/Chinese yuan exchange rate rose to temporarily reach the mid-CNY 6.83 level. As of September 28, the U.S. dollar/Chinese yuan pair was trading at around CNY 6.82.

2. Outlook for This Month

In October, the U.S. dollar/Chinese yuan exchange rate is forecast to remain low.

The Chinese yuan has been constantly appreciating since June, and the U.S. dollar/Chinese yuan exchange rate fell in an accelerated manner since the second half of August. However, this trend slowed down in September. Waiting for the presidential election in the U.S., scheduled for November, the market will be more unpredictable for a short while, but there is no major likely change in terms of the trends in the U.S. dollar/Chinese yuan exchange market based on the fundamentals. There are some basic factors that are supporting the appreciation of the Chinese yuan, such as China's economic recovery from the Covid-19 crisis advancing ahead of other countries, as well as the widening interest rate differentials based on a difference in monetary policy between the U.S. and China. Furthermore, as the Chinese monetary authorities are promoting gradual opening of the monetary market, this makes the trends in security investment transactions also an important element in the market.

On September 25, FTSE Russell made an announcement that Chinese government bonds would be included (as of October 2021) in its World Government Bond Index (WGBI). This is the third index that includes Chinese government bonds after Bloomberg Barclays indices and J.P. Morgan indices. Investment capital flow from abroad to the Chinese onshore market has also been increasing based on the Bond Connect scheme that has introduced in 2017. It is easy to recall that the Chinese yuan appreciated sharply in July this year along with the appreciation of stocks denominated in Chinese yuan, based on an inflow through the Stock Connect scheme. Even though the Chinese yuan would not necessarily appreciate in the spot exchange market with a security investment inflow, it will certainly be a factor toward creating a market sentiment that would lead the Chinese yuan to appreciate.

The tensions between the U.S. and China have thus far led the Chinese yuan to depreciate. However, under the current condition, it has not been a factor strong enough to change the trend in the market. The opposition surrounding Chinese IT companies in the U.S. is also likely to result only in short-term fluctuations in the market. Thus, the U.S. dollar/Chinese yuan exchange rate is most likely to remain low in October.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – October 2020

Expected Ranges	**Against the US$:**	**SG$ 1.3500–1.3900**
	Against the yen:	**JPY 76.00–78.00**

1. Review of the Previous Month

In September 2020, the Singapore dollar depreciated against the U.S. dollar.

At the beginning of the month, U.S. stock prices fell, following which the currencies of emerging countries weakened. Market participants grew cautious after the remark made by U.S. President Donald Trump such that he would put an end to dependency on China, while concerns were growing over the outlook of the trade negotiations between the U.K. and the EU. Risk-averse sentiment thus grew in the market, and the Singapore dollar weakened against the U.S. dollar. As a consequence, the U.S. dollar appreciated, and the U.S. dollar/Singapore dollar exchange rate, which opened trading at the mid-SGD 1.35 level at the beginning of the month, rose to the SGD 1.37 level.

However, on September 14, market participants reacted positively to headlines related to the development of vaccines against Covid-19. Furthermore, more market participants expected the Federal Open Market Committee (FOMC) to maintain a policy of monetary easing, and this led the currencies of emerging countries to appreciate. Thereafter, the industrial production of China was released, recording a recovery to the highest level in eight months. For these factors, the Singapore dollar appreciated significantly, and the U.S. dollar/Singapore dollar exchange rate once reached the lower-SGD 1.35 level.

However, thereafter, the U.S. dollar appreciated as the FOMC meeting was approaching, while the currencies of emerging countries gradually lost their strength. Once the employment-related indices of the U.S. turned out to be weak, the Singapore dollar started to weaken again amid growing concerns regarding economic recovery.

On September 21, the media reports related to the Covid-19 crisis focused on the second wave of infection in Europe. As a result, U.S. and European stock prices fell amid concerns over possible restrictions on economic activities. Following this trend, the Singapore dollar depreciated significantly. Thereafter, the president of the Federal Reserve Bank of Chicago, Charles Evans, made a hawkish remark to underline that it is possible for the Federal Reserve Board (FRB) to raise the interest rate before the average inflation rate reaches 2%, which led the U.S. dollar to appreciate. The Singapore dollar had appreciated against the U.S. dollar to once reach the lower-SGD 1.35 level. However, the trend was completely reversed, and the Singapore dollar weakened against the U.S. to the SGD 1.38 level.

Thereafter, market participants expected the Trump administration and Democratic Party officials to resume talks about economic measures for the Covid-19 crisis, leading the U.S. stock prices to rally. As U.S. dollar-buying slowed down, the Singapore dollar appreciated slightly. As of this writing, the U.S. dollar/Singapore dollar pair has been trading at the lower-SGD 1.37 level.

2. Outlook for This Month

In October 2020, the Singapore dollar is forecast to depreciate against the U.S. dollar.

The Monetary Authority of Singapore (MAS) meeting is scheduled for October. Currently, major countries around the world have announced various measures against the Covid-19 crisis, and it has been pointed out that, for now, fiscal measures would be more efficient than monetary measures for economic recovery. Given such circumstances, the MAS is likely to maintain its current monetary policy at the next meeting.

The MAS has been controlling monetary policy by setting foreign exchange rates and by adjusting the exchange rate between the Singapore dollar and the currencies of Singapore's major trade partners within the non-disclosure range. At the previous MAS meeting held in March, the MAS introduced the largest measure of monetary easing seen since the financial crisis in 2009 by virtually moving the center of the fluctuation band downward by flattening the rate of increase in the fluctuation band. On the other hand, the Singapore government introduced a fiscal support measure worth SGD 100 billion, making it clear not only for market participants but also for the MAS that fiscal measures are key for economic recovery in times of a pandemic. While many market participants are waiting for support through fiscal policy, it is not necessarily a good idea for the MAS to change the monetary policy at this time. Therefore, the MAS is expected to maintain the current policy of monetary easing at the next meeting.

The GDP of Singapore for the second-quarter period tuned out to be weak, at –13.2% year-on-year. Even though GDP seems to have bottomed out, economic recovery is likely to be slow in the times ahead. For Singapore, where the economy is dependent on trade, this is a critical moment for many industrial sectors (except for pharmaceutical products, which have been actively exported thanks to global demand).

In October, the U.S. dollar/Singapore dollar exchange market is likely to continue following headlines related to the situations in the U.S. and China. However, market participants should remain attentive to monetary policy and statements released by the MAS. There are not only positive factors in the economic outlook of Singapore. Thus, the Singapore dollar could depreciate if there are some negative observations regarding the economic outlook of the country.

Takeshi Hashi, Bangkok Treasury Office, Asia & Oceania Treasury Department

Thai Baht – October 2020

Expected Ranges	**Against the US$:**	**THB 31.20–32.20**
	Against the yen:	**JPY 3.27–3.38**

1. Review of the Previous Month

In September, the U.S. dollar/Thai baht exchange rate rose toward the end of the month after remaining low.

At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at around THB 31.05. Thereafter, market participants sold the Thai baht, as Finance Minister Predee Daochai, who announced inauguration in August, declared his resignation only after a month. Thus, the U.S. dollar/Thai baht exchange rate rose to the lower-THB 31 level. On September 4, the media reported that a new case of Covid-19 infection had been confirmed for the first time in 101 days for an inmate of a prison in Bangkok, leading the U.S. dollar/Thai baht exchange rate to rise further to the THB 31.40 level. Then, on the same day, the August employment statistics of the U.S. were released, and there was a sign of improvement from the previous month in the unemployment rate and in the average hourly wage, even though growth in the number of employees slowed. Thus, market participants sold the U.S. dollar, and the U.S. dollar/Thai baht exchange rate reached the upper-THB 31.30 level—at which level weekly trading closed. On September 8, after the Songkran holidays, the U.S. dollar/Thai baht exchange market opened trading at the upper-THB 31.30 level. Thereafter, the media reported that the U.K. prepared to partially invalidate the Brexit deal with the EU, and this fueled risk-averse sentiment in the market. As a consequence, the U.S. dollar/Thai baht exchange rate rose to the THB 31.40 level.

In the middle of the month, the European Central Bank (ECB) held its committee meeting on September 10, and ECB President Christine Lagarde expressed her attitude to accept the appreciation of the euro—this led the euro to appreciate further. Following this trend, the U.S. dollar/Thai baht exchange rate also fell. Then, between September 11 and 15, economic indices in China turned out to be strong, and this led the Chinese yuan to appreciate, encouraging market participants to buy the Thai baht as well. Thus, the U.S. dollar/Thai baht exchange rate fell to the THB 31.20 level. Then, on September 17, Federal Reserve Board (FRB) Chair Jerome Powell shared, at a press conference after the Federal Open Market Committee (FOMC) meeting, his outlook that the low interest rates would be maintained until the end of 2023, encouraging market participants to sell U.S. dollar. Under such circumstances, the U.S. dollar/Thai baht exchange rate fell to the THB 31.10 level. Then, on September 18, the August number of vehicle sales in Thailand was announced, and the result was stronger than the previous month. However, the market reacted little to this event.

In the second half of the month, the U.S. dollar/Thai baht exchange rate fell below THB 31 in the morning of September 21—falling to the lowest level in three weeks—as anti-government protests, which were organized with a total of 50,000 participants during the previous weekend, had ended peacefully without an armed clash. However, market participants reacted negatively to the increase in number of Covid-19 cases in Europe, leading the exchange rate to rise again, approaching THB 31.30. On September 22, concerns over the spreading Covid-19 crisis still persisted, and the U.S. dollar/Thai baht exchange rate rose further to approach the THB 31.50 level. Then, on September 23, the central bank of Thailand held a Monetary Policy Committee (MPC) meeting, and the policy interest rate was maintained at 0.50%—as had been anticipated in the market. On the other hand, the economic outlook for 2021 was revised downward to +3.6% (it was originally +5.0%), and this encouraged market participants to sell the Thai baht. On September 24, the U.S. dollar/Thai baht exchange rate rose to approach THB 31.65. On September 28, in the last week of the month, the U.S. dollar/Thai baht exchange market opened trading with a downtrend for the Thai baht. After exceeding the latest high, the U.S. dollar/Thai baht exchange rate continued rising further. It was also announced that the state of emergency would be kept until October, and this led the exchange rate to renew its monthly high, approaching THB 31.75. Thereafter, the U.S. dollar/Thai baht exchange rate remained high toward the end of the month. In the end, the monthly trade closed at the mid-THB 31 level.

2. Outlook for This Month

In October, the U.S. dollar/Thai baht exchange rate is forecast to remain high.

In September, the Thai baht exchange market fluctuated following the trend in the U.S. dollar exchange market until the middle of the month. However, toward the end of the month, anti-government protests gained momentum due to growing dissatisfaction with the current government, fueling a sense of uncertainty regarding domestic politics in Thailand. Furthermore, the state of emergency was extended until the end of October, and this fueled concerns over a delay in domestic economic recovery. As a result, the Thai baht depreciated further.

From June to September, the U.S. dollar/Thai baht exchange rate remained unchanged for a long time. However, at the end of September, the exchange rate rose out of the limited range of fluctuation previously observed. While concerns persist over the spreading cases of Covid-19 in Europe, market participants might buy back the U.S. dollar, leading the U.S. dollar/Thai baht exchange rate to start rising further.

In October, there is no Monetary Policy Committee meeting scheduled at the central bank of Thailand. As market participants react to domestic economic indices only to a limited degree, there are few reasons to buy the Thai baht, and this makes it likely for the exchange rate to rise further. Looking back at the past several months, the Thai baht appreciated when risk-taking sentiment grew worldwide, and market participants bought the Chinese yuan. However, as the presidential election in the U.S. is only 1.5 months away, it is unlikely for the U.S. to actively engage in improving its relationship with China. Thus, market participants are not likely to actively buy the Chinese yuan. For the above reasons, there are few factors to encourage market participants to sell the U.S. dollar, and thus the U.S. dollar/Thai baht exchange rate is forecast to remain high in October.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – October 2020

Expected Ranges	**Against the US$:**	**MYR 4.0800–4.1800**
	Against the yen:	**JPY 24.90–25.60**
	Against 100 yen:	**MYR 3.9100–4.0100**

1. Review of the Previous Month

In September, the U.S. dollar/Malaysian ringgit exchange rate fluctuated within a range between MYR 4.10 and MYR 4.18. The Malaysian ringgit depreciated against the U.S. dollar and approached its recent low. This trend was based on the continued depreciation of the U.S. dollar led by growing expectation for the extremely low interest rates to be maintained for the long term in the U.S., as well as the expansion in trade surplus that resulted from an increase in exports to China after the relaxation of the restrictions on economic activities. However, toward the end of the month, the U.S. dollar/Malaysian ringgit exchange rate rose due to political confusion.

At the Jackson Hole Economic Symposium, Federal Reserve Board (FRB) Chair Jerome Powell introduced an "average" inflation target framework, which led market participants to believe that U.S. dollar interest rates would remain extremely low in the times ahead. Thanks to such expectations, the U.S. dollar/Malaysian ringgit exchange rate fell below MYR 4.17 immediately after market opening at the beginning of the month. Then, on September 3, the U.S. dollar/Malaysian ringgit exchange rate fell to the MYR 4.13 level—the lowest in seven months since February this year. However, the U.S. dollar/Malaysian ringgit exchange rate stopped falling and started to rally, as concerns were growing over a decrease in crude oil supply, while U.S. stock prices, which were at an all-time high, started to adjust. The Malaysian ringgit remained weak thereafter, waiting for the monetary policy meeting at the central bank scheduled for Thursday, September 10. On September 9, the Malaysian ringgit exchange rate returned to the level observed at the beginning of the month and rose to MYR 4.18 to the U.S. dollar.

At the monetary policy meeting, the central bank decided to maintain the policy interest rate at the existing level (1.75%) for the first time since the beginning of the year. Thus, the interest rate remained unchanged after being cut four consecutive times since January. When the country recorded its all-time worst growth rate at –17.1% year-on-year in the second quarter, the central government explained that the economy had bottomed out in April. Following up on this explanation, the central bank confirmed in the statement released after the meeting that economic conditions had started to recover. On September 11, the following day, the July industrial production index also turned out to be relatively strong. Under such circumstances, the U.S. dollar/Malaysian ringgit exchange rate fell to the MYR 4.15 level.

In the middle of the month, the August industrial production index and retail sales of China turned out to be stronger than the estimates on September 15, fueling expectations for an economic recovery. As a consequence, the U.S. dollar/Malaysian ringgit exchange rate continued falling to reach the MYR 4.12 level. On September 17, the exchange rate rallied slightly based on U.S. dollar short covering after the Federal Open Market Committee (FOMC) meeting held on 16. However, the crude oil price rose thereafter, as the OPEC Plus meeting was scheduled for the same day. As the U.S. economic indices were relatively weak, the U.S. dollar/Malaysian ringgit exchange rate renewed its low on September 21, reaching the MYR 4.10 level for the first time since February.

Toward the end of the month, however, the leader of the Malaysian opposition party, Anwar Ibrahim, suddenly held a press conference to announce that he obtained a majority at the Malaysian parliament on September 23, in reaction to which the leader of the ruling party, UMNO, admitted a betrayal of some of his party members. A sense of uncertainty grew over the political situation, while an additional economic stimulus measure was announced on the same day, fueling concerns over heavy fiscal burden. As a result, the U.S. dollar/Malaysian ringgit exchange rate rallied to the MYR 4.17 level. Even though FTSE Russell decided thereafter to keep Malaysian government bonds into its World Government Bond Index, there was little reaction in the market, as had been anticipated. On September 26, there was a municipal election in the state of Sabah, at which the ruling party of the national government won, leading to a change of government at the state level. As of September 29, the U.S. dollar/Malaysian ringgit pair was trading at the MYR 4.16 level.

2. Outlook for This Month

In October, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate within a range between MYR 4.08 and MYR 4.18. Export-related figures have been showing steady recovery, improving the supply & demand balance for the Malaysian ringgit. On the other hand, due to the second wave of Covid-19 infections, concerns are growing again over an economic slowdown worldwide. In Malaysia, where the number of positive cases had been relatively low, Covid-19 infections started to spread again in some regions via people that entered the country from abroad. Also, at the beginning of November, the governmental budget bill for the next fiscal year is to be released, and there is pressure for the government to demonstrate a clear path toward fiscal normalization after the Covid-19 crisis. Under such circumstances, political uncertainty suddenly grew, and this would be a weakening factor for the Malaysian ringgit.

Since March, Malaysia has been successful in limiting the spread of Covid-19 infections, and economic indices, including trade statistics, have been steadily recovering so far after bottoming out in April. However, starting with people that entered Malaysia from abroad, some major clusters of infections were confirmed in the states of Sabah and Kedah. As a result, concerns are growing over a possible tightening of restrictions on economic activities. On the other hand, the loan moratorium for small and medium-sized enterprises introduced by the central bank is to end at the end of September, as had been scheduled. Also, the government under Prime Minister Tan Sri Muhyiddin Yassin announced a fifth economic stimulus package worth MYR 10 billion in order to support small-sized enterprises and the low-income class, mainly via a lump sum payment for households and a subsidy for wages.

This fifth economic stimulus package is at about the same scale as the lump sum payment (USD 2.5 billion) made to the government by Goldman Sachs Securities in August for the settlement of the alleged illegal fund transfer from IMDB. Taking this payment into account, the fiscal deficit as a percentage of GDP for this fiscal year would exceed 6%—almost twice as high as the original plan. After the outbreak of the pandemic, major ratings companies S&P and FITCH revised their outlook for the Malaysian sovereign rating (A-) from "Stable" to "Negative." While the Covid-19 crisis has been causing wartime-like confusion, market participants should keep an eye out for the governmental budget bill for FY2021 that is to be released on November 6 so as to see whether the right path for economic normalization is being indicated by the government.

Under such circumstances, the political confusion discussed above fueled a sense of uncertainty toward the budget session of the Malaysian parliament scheduled for November. If the leader of the opposition party manages to prove his claim correctly, the King of Malaysia would have three choices: (1) a snap election based on a request by the Prime Minister, (2) a confidence resolution on the current Prime Minister at the parliamentary session in November, or (3) direct nomination of a new Prime Minister, as was the case at the time of the resignation of former Prime Minister Mahathir Mohamad. Regardless of the choice, this can be a negative factor for the Malaysian ringgit if political confusion continues for a long period.

On the other hand, there are positive factors for the Malaysian ringgit as well, such as the decision made by FTSE Russell to keep Malaysian government bonds in its World Government Bond Index, as well as the decision to upgrade the liquidity category. The key task for the Malaysian government is to stabilize domestic politics before the parliamentary session on the governmental budget bill for the next fiscal year, maintaining trust from abroad.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – October 2020

Expected Ranges	**Against the US$:**	**IDR 14,700–15,400**
	Against 100 rupiah:	**JPY 0.68–0.72**
	Against the yen:	**IDR 138.89–147.06**

1. Review of the Previous Month

In September, the Indonesian rupiah depreciated against the U.S. dollar.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the mid-IDR 14,500 level on September 1. A proposal was submitted on a major reform for the central bank to give governmental officials the right to attend monetary policy meetings at the central bank of Indonesia with voting rights. As a result, concerns grew over the independence of the central bank, leading the Indonesian rupiah to depreciate. President of Indonesia Joko Widodo underlined on September 1 that the independence of the central bank would be maintained. However, concerns persisted over a possible direct purchase of Indonesian government bonds, and thus the Indonesian rupiah continued depreciating on September 2. On the same day, the deputy governor of the central bank made a remark regarding a possible purchase of government bonds by insisting that the burden-sharing scheme is only for this year. However, the Indonesian rupiah continued weakening, and the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 14,850 level on September 3. At this point, the depreciation of the Indonesian rupiah slowed down once. However, on September 9, the government announced its decision to stop the gradual relaxation of major social restrictions and tighten rules again, as the number of Covid-19 cases increased significantly. In reaction, the Jakarta stock price index fell sharply from the 5,100 level to below the 4,900 level. As risk-averse sentiment grew in the market, the Indonesian rupiah depreciated significantly as well. Thereafter, the media reported that the central bank of Indonesia had been intervening in the market in order to control volatility. However, the depreciation of the Indonesian rupiah continued, and the U.S. dollar/Indonesian rupiah exchange rate approached IDR 15,000—the monthly low. On September 15, the August trade balance of Indonesia was released, revealing a surplus of over USD 2.3 billion, thanks to a decrease in imports—as was the case previously.

In the second half of the month, investor sentiment improved with expectations for the development of a vaccine against Covid-19, slowing down the depreciation of the Indonesian rupiah. Then, on September 17, the central bank of Indonesia held a monetary policy meeting, and the policy interest rate was maintained at the existing level as had been anticipated in the market. On the other hand, the governor of the central bank, Perry Warjiyo, made a remark such that the independence of the monetary policy would be maintained by President Joko Widodo and Finance Minister Sri Mulyani, in order to mitigate the concern that the independence of the central bank is at risk. Reacting positively to this remark, the Indonesian rupiah appreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate fell below the IDR 14,700 level on September 21 in the following week. The Indonesian rupiah continued appreciating to temporarily reach the upper-IDR 14,600 level. However, the Covid-19 infection spread rapidly worldwide thereafter, including Indonesia, and investor sentiment worsened again. As a consequence, the Indonesian rupiah depreciated again on September 24, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 15,000 level. There was also demand to buy the U.S. dollar as typically observed at the end of the month, and this led the U.S. dollar/Indonesian rupiah exchange rate to fluctuate at around the IDR 14,900 level, with a weakening Indonesian rupiah toward the end of the month (as of market closing on September 29).

2. Outlook for This Month

In October, the Indonesian rupiah is forecast to remain weak against the U.S. dollar.

The spread of Covid-19 infections has been increasing rapidly in Indonesia. On September 22, Finance Minister of Indonesia Sri Mulyani revised the GDP growth rate outlook for 2020 downward to between –1.7% and –0.6% (it was previously between –1.1% and +0.2%), demonstrating serious damage to the domestic economy. Monetary measures taken in many countries supported the prices of risk assets such as stocks and the government bonds of emerging countries. The Indonesian rupiah was thus also supported. However, there has been a sign of weakening in the Indonesian rupiah, which has been trading, as of this writing, against the U.S. dollar just below the IDR 15,000 level.

Imports by Indonesia continue to significantly decrease, leading to a large trade surplus again in August. As has been pointed out repeatedly, there have been less market participants selling the Indonesian rupiah based on actual demand, and this is mitigating the downward pressure on the Indonesian rupiah. However, given the current situation in the Indonesian rupiah exchange market, this factor alone is not sufficient enough to stop the current depreciation of the Indonesian rupiah.

The capital inflow into 10-year Indonesian government bonds has also been flat since August, partially due to persistent concerns over the possible direct purchase of government bonds by the central bank, as well as the questioned independence of the central bank. As security investment transactions constitute an important element in supporting the Indonesian rupiah exchange market, the Indonesian rupiah is currently likely to depreciate, as the capital inflow into 10-year Indonesian government bonds has been inactive. In September, various government officials together with the governor and the deputy governor of the central bank repeatedly attempted to mitigate concerns over direct purchase and the loss of independence of the central bank. However, the media might report more negative news surrounding this issue, and market participants should remain attentive.

While the Indonesian rupiah remains weak, the price level has been falling in Indonesia. However, it is difficult to expect the central bank to additionally cut interest rates. Therefore, the policy interest rate is expected to remain unchanged in October, as was the case in September.

For the above reasons, the Indonesian rupiah is forecast to weaken against the U.S. dollar in October.

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

Philippine Peso – October 2020

Expected Ranges	**Against the US$:**	**PHP 47.80–49.00**
	Against the yen:	**JPY 2.16–2.20**

1. Review of the Previous Month

In September, the Philippine peso continued appreciating against the U.S. dollar in the onshore market.

While the Philippine peso continued appreciating for the 11th consecutive week, the U.S. dollar/Philippine peso exchange market opened trading at PHP 48.48—the same level as the closing rate in August.

At the beginning of the month, market participants actively bought back the U.S. dollar. President of the Federal Reserve Bank of Atlanta Raphael Bostic made a remark such that there were risks of an asset bubble, and this led U.S. stock prices to fall sharply on September 3, fueling risk-averse sentiment in the market. Also, an executive board member of the European Central Bank (ECB), Philip Lane, pointed out that the euro/U.S. dollar exchange rate was an important factor, while Deputy Governor of the Bank of England David Ramsden made a comment that it would be possible to significantly expand asset purchases, if necessary. As a result, the depreciation of the U.S. dollar slowed down.

On September 4, the August employment statistics of the U.S. were released, immediately after which U.S. stock prices continued falling. Thus, many market participants wished to observe the trends in the U.S. stock market with a sense of uncertainty. Furthermore, the August trade statistics of China revealed weak figures with a large decline in imports, and this kept the currencies of Asian countries weak. Under such circumstances, the U.S. dollar/Philippine peso exchange rate once reached PHP 48.68 on September 8, and this turned out to be the monthly low for the Philippine peso.

While U.S. stock prices were rallying, the July trade deficit of the Philippines was announced on September 10, and this turned out to be USD 1.83 billion—larger than the market estimate, which was USD 1.5 billion. As the deficit of the previous month was also revised to a larger figure, this all could have been seen as a factor to encourage market participants to sell the Philippine peso. However, the U.S. dollar remained weak, and the U.S. dollar/Philippine peso pair continued trading at around PHP 48.60.

Thereafter, the July amount of Overseas Filipino Workers (OFW) remittances was announced on September 15, recording positive growth of 7.8% from the previous month, while the market estimate was negative growth from the previous month. Reacting positively to this news, on September 16, the U.S. dollar/Philippine peso exchange rate reached PHP 48.35—renewing its highest rate for the Philippine peso since the beginning of the year. However, after the Federal Open Market Committee (FOMC) meeting, market participants started to buy back the U.S. dollar again. As of this writing, the U.S. dollar/Philippine peso exchange rate has been fluctuating at the PHP 48.40–48.60 level following various headlines related to additional economic measures in the U.S., trends in the U.S. stock market, and risk-averse and risk-taking sentiment in the market (as of 11:00 a.m. on September 28).

2. Outlook for This Month

In September, the U.S. dollar index rose from the lower-92 level to the lower-94 level. On the other hand, the Asian currency index rose once and returned to the level observed at the beginning of the month, forming a candlestick chart with a long upper shadow. The overall trends in the foreign exchange market as a whole show the appreciation of the U.S. dollar, with the result that many Asian currencies have been weakening against the U.S. dollar. However, in the U.S. dollar/Philippine peso exchange market, the U.S. dollar remained weak in September, while there were some phases at which market participants sold the Philippine peso.

Also, the August Consumer Price Index of the Philippines turned out to be 2.4%, recording a slowdown from the previous month's result, which was 2.7%. As inflation has been controlled, it is not likely to impact the foreign exchange market.

The central bank is scheduled to hold a monetary policy meeting on October 1, and, according to market consensus, the policy interest rate will be maintained at the current level.

It is expected that the central bank will take the time to evaluate the impact of the Covid-19 crisis on the economy by maintaining the current policy interest rate for the second consecutive time, leaving some room for further monetary easing for the end of the year.

The August amount of foreign currency reserves in the Philippines turned out to be USD 99 billion, recording a significant increase from the USD 79.1 billion at the end of last year and renewing the all-time high. It can be said that this is a sufficient amount to prevent the Philippine peso from depreciating. Thus, from the medium- to long-term perspective, the Philippine peso exchange market is likely to be stable.

Finally, late at night on September 28, the Philippine government decided to maintain the current activity restrictions in Metro Manila for October. As some expected the restrictions to be relaxed, market participants should carefully observe any negative impact on the exchange market, although the impact is likely to be minimal.

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

Indian Rupee – October 2020

Expected Ranges	**Against the US$:**	**INR 71.50–75.50**
	Against the yen:	**JPY 1.38–1.48**

1. Review of the Previous Month

In September, the U.S. dollar/Indian rupee exchange market opened trading at a low rate and slightly rallied thereafter.

With market participants concerned about possible change in the attitude regarding foreign exchange market interventions by the central bank of India, the U.S. dollar/Indian rupee exchange rate fell, and the U.S. dollar/Indian rupee market opened trading at INR 73.25 in September, after almost recovering to the level observed before the lockdown at the end of August. The central bank of India commented that the appreciation of the Indian rupee had been controlling import inflation, and this was seen in the market as a comment to accept the appreciation of the Indian rupee. Thus, the U.S. dollar/Indian rupee exchange rate fell below the INR 73.00 mark in the afternoon of September 1 and rapidly fell further to INR 72.75—the monthly low. At the same time, the U.S. dollar index, which had consecutively renewed its lowest level since the beginning of the year, bottomed out and started to rally after the depreciation of the euro. Market participants started to buy back the U.S. dollar worldwide. Following this trend, the U.S. dollar/Indian rupee exchange rate also recovered to the INR 73 level.

In the second week of the month, risk sentiment in the market worsened with concerns over the possibility of a Brexit without a deal, in tandem with the deterioration of the relationship between the U.S. and China. Market participants thus avoided the currencies of emerging countries. Furthermore, the governor of the European Central Bank (ECB) made a comment to give warning to the appreciation of the euro. As a result, there was a capital inflow into the U.S. dollar market. Following this trend, the U.S. dollar/Indian rupee exchange rate also returned to the mid-INT 73 level. Thereafter, the media reported that a major investment fund in the U.S. had announced its decision to invest USD 1 billion in Reliance Retail, while another fund was also considering investing USD 1.5 billion. In reaction to this, some market participants bought the Indian rupee, but this did not last for a long time.

At the beginning of the third week of the moth, a fund in the U.S. announced that it would invest USD 500 million to obtain the stock of a pharmaceutical company held by a large financial group in India. Also, risk-taking sentiment strengthened due to the growing expectation for progress in the development of a vaccine against Covid-19, and, as the result, the Indian rupee strengthened once again. However, stock markets underwent global adjustment, and risk-taking sentiment did not grow further due to dissatisfaction with fiscal policy in the U.S. and due to a sense of uncertainty surrounding the U.S. presidential election.

In the fourth week of the month, major cities in Europe announced another lockdown, leading the BSE SENSEX Index to fall by 3% in one day. Under such circumstances, the U.S. dollar/Indian rupee exchange rate once reached INR 73.97, the monthly high, after which the rise of the exchange rate slowed down before reaching the INR 74.00 mark. In the end, the U.S. dollar/Indian rupee continued fluctuating within a narrow range between INR 73.20 and INR 73.90 from September 8 until the end of the month.

2. Outlook for This Month

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

Looking at the increase in foreign currency reserves in India by month, the number was +USD 14 billion in May, +USD 13.4 billion in June, +USD 27.7 billion in July, and +USD 6.7 billion in August. In September, this was at +USD 3.6 billion as of the week of August 18. Even though there has been positive growth since August, this has clearly slowed down. Intervention in the foreign exchange market, which is the largest buyer of Indian rupees, seems to have declined. It should however be pointed out that there has been market intervention when necessary. For example, in September, the U.S. dollar/Indian rupee exchange rate ended up fluctuating within a narrow range without falling below the INR 73.20 level, as was discussed above. Looking at the rate of change between the highest rate in August (INR 75.18) and the lowest rate in September (INR 72.75), the Indian rupee appreciated against the U.S. dollar by 3% only. This may suggest that the appreciation of the Indian rupee did not stop by chance but by the intention of authorities.

From the point of view of market participants buying the Indian rupee, as was discussed above, there was a large amount of capital inflow from abroad through direct investment worth more than JPY 50 billion in September. Market participants should remain attentive about a decline in domestic security investment that resulted from adjustment in the Indian stock market. However, it is expected that investment capital will continue flowing in from abroad in the times ahead.

In terms of trends in the U.S. dollar exchange market, the U.S. dollar index, which had been falling after peaking out in the second half of March, bottomed out on September 1 and started to rise. While economic indices in the U.S. remain important factors, political factors impact the market more decisively, such as the political uncertainty in the U.K., cases of Covid-19 infection (and the concomitant activity restrictions) in Europe, the scale of fiscal stimulus in the U.S., and issues related to the U.S. presidential election. Even though the factors are difficult to foresee, market participants should observe the current rally to see if this is all only temporary or whether a new trend is being formed.