# Mizuho Dealer's Eye

**November 2020**



Mizuho Bank, Ltd.

Derivatives & Forex Department

Motoko Kobayashi, Forex Sales, Derivatives & Forex Department

# U.S. Dollar – November 2020

**Expected Ranges** **Against the yen: JPY102.00–107.00**

## 1. Review of the Previous Month

The dollar/yen pair fell toward the latter half of October.

The pair opened the month trading at the mid-105 yen mark on October 1.Trade in Japanese stocks was suspended due to a system failure on the Tokyo Stock Exchange (TSE), but the impact on the currency markets was limited. The pair temporarily hit a weekly low of 104.95 yen on October 2 following news that President Trump had contracted Covid-19. US stocks had tumbled, but these losses were now pared back, so the pair rallied slightly to hit the 105.30 yen range. Risk aversion waned in the second week on news that President Trump was doing well, so the yen was sold and the currency pair rose to the upper-105 yen mark on October 5. US stocks them plummeted on October 6 on news that President Trump had suspended talks on a stimulus package, with the yen bought on risk aversion, but this trend eased off the following day on October 7, so the pair rose to hit a monthly high of 106.11 yen. The greenback was then sold on risk appetite on hopes that a new US economic package would be introduced in the near future.

The dollar was bought for a time on risk aversion the following week as the markets reacted badly to news that a major US pharmaceutical company had halted research into a Covid-19 vaccine. However, with hopes rising regarding the ongoing FTA negotiations between the UK and EU, the greenback was sold against all European currencies, with the dollar/yen pair also sliding. US treasury secretary Steven Mnuchin them commented that it would be hard to reach an agreement on an economic package before the US election. This saw the pair falling close to the key 105 yen level and it continued to move at lows thereafter amid a dearth of new factors. The greenback was bought on real demand in the latter half of the week. With Brexit talks also stalling and concerns growing about a resurgence of Covid-19 in Europe, European currencies were sold off. The dollar/yen pair rallied to around the mid-105 yen mark and it continued to trade in a range around this level thereafter.

The euro rose sharply on October 20, so the dollar/yen pair dropped back again. Japanese real-demand investors sold the dollar on October 21. With the greenback also sold against the euro and the RMB, the dollar/yen pair dipped to 104.35 yen. As investors focused on buying on the dip at the lower-104 yen level, the pair bounced back to the upper-104 yen mark to close the week trading at 104.74 yen. In the final week, the US released some bearish economic indicators, while investors focused on the second wave of Covid-19 infections in Europe and elsewhere, with the pair subsequently falling to the lower-104 yen mark. The euro/yen pair and pound/yen pair both weakened on October 29, with the dollar/yen pair also pulled down to a monthly low of 104.03 yen. The euro was sold at a faster pace after the ECB Governing Council meeting when ECB president Christine Lagarde discussed further easing in December, with the dollar/yen pair rallying to the upper-104 yen level. The last day of the month saw a mixture of buying and selling, so the pair moved in a range around the mid-104 yen level.

## 2. Outlook for This Month

The US presidential election is looming on November 3. If this passes smoothly, the dollar/yen pair will be pushed higher by risk appetite on hopes for an early agreement on a new economic package. However, if the election gets mired on controversy, the pair could be sold across the board on risk aversion. As such, the presidential election will be the main factor influencing the currency pair in November.

The economic policies espoused by each candidate are as follows. Donald Trump will pursue an 'America First' policy and he will seek to revive the economy through large-scale tax cuts, also known as the 'Trump tax cuts.' Joe Biden want to work together with other nations and make the US a global leader again. He also wants to expand social security and actively boost infrastructure investment through tax hikes. President Trump is slightly behind in the polls, but if he does win, we will continue to see a 'Trump market,' with the dollar/yen pair pulled higher by large-scale new tax cuts and so on. Mr. Biden has a slight edge in the polls. If he wins, he will probably announce some tax hikes. However, if the Democrats capture both the upper and lower houses as well as the presidency, this will lead to expectations for the seamless execution of economic policy, with the pair set to rise in this scenario too.

However, if the election gets mired in controversy, this could prove a hugely destabilizing factor, with risk aversion sweeping the markets. Voting will take place on November 3, with voters from each state casting their ballots for the next president. However, many people have voted by mail because of the Covid-19 measures, so it could take several days before the victor is confirmed. Next up, Electoral College representatives will cast their votes for the next president on December 14.The candidate who has the support of 270 of the 538 electors will then be chosen as president. The votes of these electors will be counted in Congress on January 6 next year, with the next president formally announced. Finally, on January 20, 2021, the inauguration ceremony will be held in Washington, with the president and vice president taking the oath. At a debate on October 29, President Trump claimed that postal voting (which has surged due to the Covid-19 situation) could lead to electoral fraud and he expressed the opinion that the Supreme Court might be called to make a decision on the election results. If there are cases of fraud or miscounting, for example, both candidates might claim victory, with a legal battle then ensuing. This would be hugely destabilizing for the markets and the greenback might be sold on risk aversion, so caution will be needed.

## Dealers' Market Forecast

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

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| Bullish on the dollar | 11 bulls | 108.00 – 103.00 | Bearish on the dollar | 10 bears | 106.00 – 102.00 |

* Ranges are central values

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| Tanaka | Bear | 106.00 – 102.00 | It is hard to predict when the election results will be announced and what they will be, with many factors up in the air, but the greenback has been sold on expectations for a Joe Biden victory, so investors should be on guard against an unwinding of this trend. However, with Covid-19 also flaring up again, the risk for the dollar/yen pair lies on the downside. |
| Takeuchi | Bear | 106.00 – 103.00 | There is a big risk the US presidential election results might not immediately become clear, with risk aversion dragging on. However, the markets have excessively priced in a Joe Biden victory, so when this trend eases off, the yen will probably strengthen against the dollar. |
| Tsutsui | Bull | 109.00 – 103.00 | The dollar/yen pair will be swayed by the presidential election, the balance of power in Congress, and the second wave of Covid-19. These are all connected to expanded fiscal mobilization.US real interest rates are also returning to trend, so although the pair could see more daily fluctuations on news reports, it looks set to gradually edge higher. |
| Kato | Bull | 109.00 – 104.00 | The markets have factored in a Joe Biden victory to a certain extent. Even if this does come to pass, risk appetite will prevail in the short term on expectations for a revival in global trade. A Trump victory seems unlikely, but if it does happen, the dollar/yen pair will move even more bullishly. |
| Yamagishi | Bull | 108.00 – 102.00 | The presidential election will depend on the results in swing states, so there is still a lot of uncertainty. If a clear victor emerges quickly, this will lead to a sense of relief, with the greenback pushed higher and the yen lower, just like four years ago. However, if the gap is narrow and there is no immediate winner, investors will probably test the dollar/yen pair's downside. |
| Ushijima | Bear | 106.00 – 102.00 | It will take time before the result of the US presidential election becomes clear, with risk aversion set to continue for now. If the dollar/yen pair drops below 104 yen, its stay in the 103 yen range will probably be short-lived. Once the result is clear, though, the dollar/yen pair could rally sharply, like it did four years ago. |
| Tasaka | Bear | 106.00 – 102.00 | When the results of the presidential election are broadly known, the greenback will be bought for a time on position adjustments now a major event is out of the way. There are concerns about an economic downswing on Covid-19, though, while the election results might also be disputed, so risk aversion looks set to continue. |
| Omi | Bull | 109.00 – 101.00 | The dollar will continue to be bought back at a gentle pace. The backdrop will be firm US stock movements and expectations for prolonged low interest rates and new fiscal policies. The dollar/yen pair could fluctuate wildly at the start of the month on the impending presidential election on November 3, but the greenback will be bought once this event is out of the way. |
| Ueno | Bear | 106.00 – 101.00 | If could take time before the results of the presidential election are finally tallied. If no clear victor emerges and the debate about an economic package drags on, downside risk will probably rise. The Covid-19 situation in the US is worse than in Japan. This will also weigh the dollar/yen pair down. |
| Yamaguchi | Bear | 107.00 – 102.00 | As risk aversion continues, the dollar/yen pair will remain heavy on the topside. It will probably take some time before the results of the US presidential election are announced. With Covid-19 cases also surging across the globe, there could be some new lockdowns going forward. |
| Kai | Bear | 106.00 – 103.00 | Even if the results of the presidential election start to become clearer, it will take time before the final tally emerges, so the yen will continue to edge higher for now. The dollar/yen pair may jostle up and down, but its level looks set to gradually slip lower. |
| Onozaki | Bull | 108.00 – 101.00 | The greenback will probably be bought once the presidential election is out of the way. The markets have priced in a Biden victory to a considerable extent, with the dollar/yen pair set to rise on a sense that the election will run relatively smoothly. However, if the election springs a surprise or it takes time for the results to emerge, this will lead to risk aversion, with the dollar/yen pair's |

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| | | | downside sliding towards its 2020 low of the 101 yen range. |
| Tamai | Bull | 106.00 – 103.00 | Risk aversion will ease after the US presidential election as investors look forward to the announcement of a new economic package. However, there is a risk that the election might not yield a clear result. The dollar/yen pair will probably move in the same direction whatever happens, with price fluctuations kept in check. |
| Harada | Bear | 106.00 – 102.00 | With the presidential election looming on November 3, the dollar/yen pair will trade erratically. Some observers are predicting a 'blue wave,' with the Democrats winning the presidency and both houses of Congress. If this happens, stocks and bonds might be sold off, so caution will be needed. |
| Oba | Bull | 106.00 – 104.00 | Investors will be focusing on whether the dollar/yen pair can remain at the psychologically-important 104 yen mark. If the results of the presidential election grow clearer, the pair might rise to around 105.20 yen, the central point of its Bollinger Band (20-day moving average). If the yen surges temporarily, investors should build up long positions. |
| Katoono | Bear | 106.00 – 101.00 | The dollar will probably be bought on high hopes no matter who wins the US presidential election, though its topside will be capped by an economic downside due to the resurgence of Covid-19 in Europe and the US, with the dollar/yen pair likely to fall further toward the end of the month. |
| Kobayashi | Bull | 107.00 – 102.00 | If the US presidential election passes smoothly, the dollar/yen pair will be pushed higher by expectations for an early agreement on an economic package. However, President Trump has claimed that postal votes will lead to electoral fraud, so if the election gets mired in controversy, risk aversion will prevail, so caution is needed. |
| Henmi | Bull | 107.00 – 103.00 | The greenback fell late October as investors priced in a Joe Biden victory. If things pass smoothly, this will be greeted with a sense of relief, with the dollar bought back as a result. |
| Otani | Bull | 107.00 – 104.00 | The greenback will probably be bought on a sense of relief once the US presidential election is out of the way. The dollar/yen pair will be supported by deep-rooted expectations for a large-scale fiscal package, regardless of who wins the election. |
| Suzuki | Bear | 106.50 – 102.00 | Risk aversion will continue until the results of the presidential election are formally announced. Even if the results emerge quickly, any bullishness will be short-lived, with the dollar/yen pair set to move heavily on the topside on the resurgence of Covid-19, for example. |
| Okuma | Bull | 108.00 – 103.00 | The dollar/yen pair will move erratically on uncertainty about the presidential election. However, there is a growing risk of a European economic downswing, so the dollar and yen will both be susceptible to buying on risk aversion. As such, the pair looks set to move firmly this month. |

Tomohiro Suzuki, Forex Sales, Derivatives & Forex Department

# Euro – November 2020

**Expected Ranges** **Against the US$: US$1.1450–1.1800**
**Against the yen: JPY121.00–125.00**

## 1. Review of the Previous Month

The euro/dollar pair's topside was tested in the latter half of October, though the pair fell toward the end of the month.

The pair opened the month at the lower-$1.17 mark on October 1. The trend from the end of September spilled over into October, with the pair rising to the upper-$1.17 level for a time. However, the greenback was bought and the pair temporarily dipped to the upper-$1.16 mark on October 2 on news that President Trump had contracted Covid-19. It was then bought back slightly to close the week at the lower-$1.17 level.

The second week saw European stocks and US futures making further gains, with the currency pair climbing to the lower-$1.18 mark at the start of the week before dropping back to the lower-$1.17 range. On October 6, President Trump announced he was suspending talks on a new economic package. The markets also reacted badly to news about stormy Brexit negotiations on October 8 and ECB concerns about the euro's strength. The greenback was sold toward the week's end on hopes that a new US economic package would be introduced in the near future, so the pair bounced back to the $1.18 range. It continued to move at highs at this level when the week ended.

The third week saw the pair hitting a high at the lower-$1.18 mark on October 12, though it tumbled thereafter. Germany released a bearish October ZEW Indicator of Economic Sentiment on October 13, while Italy posted a record number of Covid-19 cases on October 14. The markets also reacted badly to concerns about prolonged Brexit negotiations after the October 15 deadline passed without an agreement. All this saw the pair dipping to the upper-$1.16 mark for a time. The pair rallied to the $1.17 range at the weekend and European stocks made further gains, but with US interest rates climbing, euro long positions were adjusted, so the pair's topside was held down and the pair closed the week trading at the lower-$1.17 level.

The pair trended upwards for a time in the fourth week to renew a monthly high. After opening the week at the lower-$1.17 mark, it then rose to the upper-$1.17 level on October 19 on waning concerns that Brexit negotiations would drag on. Risk appetite increased on October 20 as hopes grew for an early agreement on a new US economic package, so the pair rose to the upper-$1.18 range before hitting a monthly high of $1.1880. The pair was dragged lower toward October 22 as the euro/pound pair fell on receding speculation that the Bank of England would introduce negative interest rates. With US interest rates also climbing, the euro/dollar pair temporarily fell to the upper-$1.17 mark. However, the eurozone released a better-than-expected October Manufacturing PMI on October 23, so the pair rallied to hit the upper-$1.18 level again. It remained at this level as the week ended.

The pair hit a high of $1.1859 at the start of the fifth week before sliding thereafter. Germany's October IFO Business Climate Index was released on October 26 and it posted a month-on-month decline. Concerns also grew from October 27 that France and Germany would introduce lockdowns again. With US and European stocks also moving bearishly form the start of the week, the pair continued sliding. In a press conference on October 29, ECB president Christine Lagarde dropped hints about further easing in December. The euro was sold at a faster pace, with the pair temporarily hitting a monthly low of $1.1650. It was then bought back slightly before ending the month trading at the upper-$1.16 level on October 30.

## 2. Outlook for This Month

In November, the euro/dollar pair will probably continue trading with a heavy topside.

The most important factor will be the US presidential election. Investors originally thought the dollar would rise on a Trump Republicans victory and weaken on a Biden Democrats victory, but with Covid-19 continuing to spread as election day approaches, investors have begun to focus on the need for fiscal mobilization, so many now believe the greenback will rise even if Biden wins. After a couple of debates and so on, opinion polls at the end of October pointed to a Joe Biden victory. However, many people have voted by mail, so it could take time before the results are tabulated. Furthermore, if the voting is close, this could lead to a legal battle, with the announcement of the final result pushed back significantly. With the unprecedented Covid-19 crisis continuing to boil away, the election could be a very close-run thing. As such, a sense of direction might not emerge immediately after the election, with euro long positions subsequently facing some adjustment. If this happens, the greenback might be bought further as a safe asset.

There are also concerns about the resurgence of Covid-19 across Europe. Italy recorded a record daily increase in Covid-19 cases last month, with France and other countries also starting to reintroduce measures to curb the outbreak, including nighttime curfews and lockdowns. After improving for five straight months, Germany's IFO Business Climate Index deteriorated at the end of October. With uncertainty now growing about the direction of the eurozone economy, the euro/dollar pair's topside will probably be held down.

The ECB Governing Council kept policy fixed when it met on October 29, though it dropped hints about further easing in December. This will probably come in the form of an extension/increase to the PEPP or the provision of funds via a TLTRO, for example. The euro was sold at a faster pace after ECB president Christine Lagarde's press conference, but the euro might be bought on any policy decisions, just like it was after an agreement was reached on a recovery fund, so investors will need to keep a close eye on things going forward.

## Dealers' Market Forecast

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

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| Bullish on the euro | 2 bulls | 1.1900 – 1.1500 | Bearish on the euro | 19 bears | 1.1800 – 1.1400 |

* Ranges are central values

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| Tanaka | Bear | 1.1800 – 1.1400 | The European economy recovery will stall as lockdowns are re-introduced to cope with a Covid-19 resurgence. It seems more-or-less certain that the ECB will introduce further easing. Though investors should pay attention to the dollar's movements in the wake of the US presidential election, the euro/dollar pair looks set to move bearishly overall. |
| Takeuchi | Bear | 1.1900 – 1.1400 | Excessive expectations for a bullish euro will wane on speculation about further ECB easing. There are also concerns about an economic slowdown on a Covid-19 resurgence in Europe and elsewhere, so the euro/dollar pair looks set to trade with a heavy topside. |
| Tsutsui | Bear | 1.1800 – 1.1100 | The Covid-19 resurgence and fiscal mobilization will be more of an issue for Europe than the US. The ECB will probably ease further in December. In November, it will probably try to guide the euro lower though verbal interventions by high-ranking figures, with the euro expected to move bearishly. |
| Kato | Bear | 1.1800 – 1.1400 | The negative impact of Covid-19 continues to hit the eurozone. On this technical front, the euro/dollar pair will probably peak out this month, with speculators also likely to continue selling back the pair. |
| Yamagishi | Bear | 1.1900 – 1.1400 | The euro will be a hard currency to buy given concerns about an economic slump on lockdowns and other restrictions introduced to tackle the Covid-19 resurgence in Europe. In addition to the slowdown, there are also concerns about the impact of the bullish euro on the economy and inflation. The euro will also be sold on expectations for further ECB easing in December. |
| Ushijima | Bear | 1.2000 – 1.1500 | The markets are likely to remain in risk-off mode until the results of the US presidential election are clear, with accumulated euro long positions continuing to be steadily unwound. With the eurozone also experiencing a second Covid-19 wave, the euro/dollar pair is likely to remain bearish. |
| Tasaka | Bear | 1.1800 – 1.1400 | With the number of Covid-19 cases increasing across Europe, the eurozone economic recovery is likely to slow sharply, so investors will find it hard to actively but the euro, with the euro/dollar pair set to trade with a heavy topside. |
| Omi | Bear | 1.2000 – 1.1400 | The euro will continue to move heavily. US stocks have risen on prolonged US low interest rates, while hopes are rising for further fiscal stimulus in the US. As such, investors will continue to buy back the dollar, with the euro/dollar pair's topside likely to be weighed down. |
| Ueno | Bull | 1.2000 – 1.1500 | Investors will find it hard to actively hold the euro given negative interest rates, bearish economic conditions and the resurgence of Covid-19. However, as the dollar grows less attractive, the euro will move comparatively bullishly at times. |
| Yamaguchi | Bear | 1.1900 – 1.1400 | With several regions in Europe introducing lockdowns in the face of a Covid-19 resurgence, there are growing concerns about an economic downturn. The ECB has also hinted about further easing in December, so investors will probably move to unwind accumulated euro long positions. |
| Kai | Bull | 1.1800 – 1.1500 | The euro will continue to be sold early November on the spread to Covid-19. However, it looks like the number of infections will wane from the middle to the end of the month, so the euro/dollar pair will gradually see more buy-backs. When infections decrease, the pair will probably recover to the $1.18 range again. |
| Onozaki | Bear | 1.1800 – 1.1300 | The eurozone is unlikely to undergo an economic recovery in the face of the Covid-19 resurgence. With the ECB also hinting about further easing in December, the euro will be a hard currency to buy, with the euro/dollar pair set to edge lower. |
| Tamai | Bear | 1.1800 – 1.1400 | With Covid-19 spreading again, the euro/dollar pair will probably trade with a heavy topside on concerns about restrictions imposed to deal with the outbreak. The pair will also be weighed down by expectations for further ECB easing oi December. However, the greenback will slide after the US presidential election, so the pair's room on the downside will be capped. |
| Harada | Bear | 1.1800 – 1.1200 | The dollar/yen pair will probably slide this month. The ECB kept policy fixed in October. However, ECB president Christine Lagarde has dropped hints about further easing, so investors will probably refrain from excessively buying the euro. Investors should pay attention to comments by ECB members going forward. |
| Oba | Bear | 1.1700 | With a second wave of Covid-19 infections sweeping Europe, the euro will be sold as restrictions are introduced to |

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| | | – 1.1550 | deal with the outbreak. The ECB has also hinted at an extension of the PEPP in December, so interest rates will face downward pressure in Germany and surrounding nations. The dollar/yen pair will probably fall to just below $1.16 for the first time since September 25. |
| Katoono | Bear | 1.1800 – 1.1550 | The euro will continue to be sold on the imposition of urban lockdowns to cope with the Covid-19 resurgence together with concerns about an economic slowdown across Europe. With speculation about further easing also bubbling away in the run up to the December ECB Governing Council meeting, the euro/dollar pair's topside will probably be weighed down. |
| Kobayashi | Bear | 1.1800 – 1.1500 | Investors will find it hard to actively buy the euro as lockdowns are reintroduced in the face of a second Covid-19 wave across Europe. The euro/dollar pair will also move bearishly on speculation about further easing in the wake of comments by ECB president Christine Lagarde. |
| Henmi | Bear | 1.1800 – 1.1400 | Some regions in Europe are reintroducing lockdowns in the face of a second Covid-19 wave. With uncertainty also lingering about the direction of Brexit, the euro/dollar pair looks set to move bearishly. With expectations for further ECB easing also rising, the pair will move heavily on the topside. |
| Otani | Bear | 1.1800 – 1.1500 | Nations across Europe are reintroducing restrictions in the wake of a Covid-19 resurgence, with concerns rising about the direction of the eurozone economy. ECB president Christine Lagarde also dropped hints about further easing when the ECB Governing Council meets in December. This will also weigh down the euro/dollar pair's topside. |
| Suzuki | Bear | 1.1800 – 1.1450 | With nations across Europe reintroducing measures to tackle Covid-19, there are concerns about the direction of the economy. There are no signs of the situation calming, so the euro/dollar pair will continue to trade with a heavy topside for now. |
| Okuma | Bear | 1.1800 – 1.1400 | Concerns are growing about the European economy as Covid-19 infections surge again and parts of Germany and France reintroduce lockdowns. The ECB has also hinted at further easing in December and there are also concerns about the euro's strength, so the euro/dollar pair will probably edge lower in November. |

Joseph McElhill, Europe Treasury Department

# British Pound – November 2020

**Expected Ranges** **Against the US$: US$1.2600–1.3200**
**Against the yen: JPY134.00–139.00**

## 1. Review of the Previous Month

In October, the pound was swayed by news about negotiations with EU, though its topside strengthened overall.

On September 29, Bank of England (BOE) deputy governor Dave Ramsden had ruled out the introduction of negative interests in the near future. The pound rose as a result and it began October moving relatively firmly. On October 5, news emerged that President Trump had left hospital after being treated for Covid-19, while it was reported the following day that Mr. Trump had suspended talks on a new economic package. As a result, the greenback was sold across the board. Sterling rose further to climb above the key levels of $1.30 against the dollar and 137 yen against the yen.

The pound then moved with a lack of momentum for several days amid a dearth of new factors. Thereafter, sterling swung up and down like a roller coaster on news about the Brexit talks. The pound initially soared on October 9 after UK prime minister Boris Johnson said significant progress had been made in negotiations with the EU, with the unit hitting $1.3050 and 137.84 yen to record it highest levels against its US and Japanese counterparts for around a month. Then, on October 13, the EU's chief negotiator Michel Barnier said there had not been enough progress for the two sides to enter the final phase of talks, while Boris Johnson also said the UK was prepared for a No-deal Brexit. Sterling fell sharply, from around $1.31 to the $1.28 range against the greenback and from the 137 yen range to 135 yen against the Japanese unit, with the pound's gains from the previous week now pared back.

On October 14, the EU instructed Michel Barnier to continue negotiations, while the UK hinted that it might not break off trade talks. This led to renewed hopes for a breakthrough, so the GBP/USD pair bounced back to the $1.31 range at midday. In just two-and-a-half days from October 13, the pair had swung from the mid-$1.30 mark to the mid-$1.28 mark to the mid-$1.30 mark again, with the pound moving erratically on Brexit news.

UK prime minister Boris Johnson then said no significant progress had been made ahead of the ECB Governing Council meeting on October 15, a date set as the deadline for talks. As the Governing Council meeting spilled over into October 16, Mr. Johnson suggested that preparations for a No-deal Brexit were fully underway. As a result, the pound moved bearishly across the board toward late October.

However, UK Brexit negotiator David Frost then announced that talks would restart from October 22. The situation flipped again on October 21, with the GBP/USD pair soaring to $1.3177 to hit its highest level since September 7. In the final week of October, the pair hovered around $1.30 on a lack of progress in Brexit talks, with the pair closing the month at this level.

## 2. Outlook for This Month

In November, the pound will move at a standstill with a heavy topside, though it could swing lower, so caution will be needed. As of October 29, the markets are focusing on two potentially bearish factors for sterling.

The first factor is the resurgence of Covid-19 within the UK. At the end of October, France and Germany both announced one-month lockdowns on the same day, so the euro was sold overnight from the mid-$1.18 mark to the $1.17 mark against the dollar. In the same way, if the Covid-19 situation does not start to ease by mid-November, expectations for a new lockdown will grow, with the pound sold on concerns about a slowdown in economic activity. At the same time, the markets will probably see some risk-evasive dollar buying if conditions worsen.

The second factor is the introduction of negative interest rates. This was first hinted at on September 17, with the pound then falling sharply for three days as market bets for a rate cut at the February BOE meeting rose to 25%. This was prompted by news that BOE governor Andrew Bailey had instructed the BOE to work with the Prudential Regulation Authority (PRA) to consider what would happen after the introduction of negative interest rates. Thereafter, BOE deputy governor Dave Ramsden, executive director Andrew Haldane and another high-ranking BOE official expressed views at odds with the BOE's prevailing stance, saying that there were no plans to introduce negative interest rates, for example, or that negative interest rates were just one option, with the BOE not preparing to introduce them at present. These comments probably aimed to assuage market concerns, but with market bets on a rate cut rising to 10% (as of October 29), for example, it seems market participants are taking these comments with a pinch of salt. As such, investors should monitor comments by BOE officials in November too, with the October CPI data (released November 18) also requiring attention.

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

# Australian Dollar – November 2020

**Expected Ranges** **Against the US$: US$0.6900–0.7250**
**Against the yen: JPY72.50–75.50**

## 1. Review of the Previous Month

China was on an extended vacation at the start of October owing to National Day and the Mid-Autumn Festival. The markets also swung to and from on hopes for a deal on a new US economic package and fears about the future. On October 1, the greenback was sold on uncertainty following news that President Trump had been hospitalized with Covid-19. With risk aversion prevailing, the AUD/USD pair fell to the lower-$0.71 mark. As dollar selling continued, the pair rallied to $0.7170.

The pair opened the second week trading at the upper-$0.71 level. Risk sentiments gradually improved on news that President Trump had left hospital. The Reserve Bank of Australia (RBA) board kept the cash rate fixed when it met on October 6. The accompanying statement said the RBA was continuing to look at further easing, so expectations for a rate cut at the next meeting rose and the currency pair fell. The pair then dipped to around $0.71 on news that President Trump had pushed back the debate on a new economic package until after the election. However, the pair bounced back to around the mid-$0.72 level in the latter half of the week on reports that President Trump was seeking an agreement.

The pair fell from the $0.72 range to the $0.70 range throughout the third week on growing expectations for an RBA rate cut. The Chinese authorities then spoke about suspending imports of coal from Australia. With discussions about a new US economic package also hitting choppy waters and with a second Covid-19 wave hitting the US and Europe, risk aversion intensified and the greenback rose across the board, with the AUD/USD pair also sliding temporarily to $0.7050. The Australian employment data was then released. At 6.9%, the unemployment rate had not deteriorated as much as expected, though the reaction of the Australian dollar was muted.

The pair dipped to the lower-$0.70 mark before bouncing back to the $0.71 range in the fourth week. It fell to $0.7080 when China's 3Q GDP data fell below expectations. On October 20, RBA Assistant Governor Christopher Kent said it would not be unexpected if the Bank Bill Swap Rate (BBSW) dipped below zero. Yields on Australian government bonds subsequently dipped, with the pair also sliding to the lower-$0.70 mark. US stocks then rallied on expectations for an agreement on a new US economic package, with the currency pair also bouncing back to $0.7070. The Australian September retail sales data weakened for the second straight month to dip 1.5% on August, but the pair still rose to $0.7130 on hopes for a new US economic package. It then floated around the lower-$0.71 mark.

The pair fell from the lower-$0.71 level to around $0.70 toward the month's end. RBA deputy governor Guy Debelle said the Australian economy had begun growing again and would return to positive growth in the third quarter. Despite this positive comment, the markets reacted badly to the introduction of urban lockdowns to fight Covid-19 in the US and Europe. Risk aversion prevailed in the latter half of the fifth week on the stormy negotiations about a new US economic package and the impending RBA board meeting and US presidential election (both scheduled for the start of November). As a result, the currency pair weakened to the lower-$0.70 mark. The

AUD/JPY pair fell from around 74.65 yen to around 73.40 yen. The US then released a better-than-expected (q-o-q) GDP figure and a 3Q consumer spending figure, with US interest rates rising thereafter. The greenback was bought back and the currency pair dipped to around $0.70.

## 2. Outlook for This Month

In November, the AUD/USD pair looks set to break below $0.70 to trade between $0.69 and $0.72. Its downside will probably dip to the $0.69 range, while its topside will weigh heavily at the mid-$0.72 level.

The RBA board meeting and the US presidential election are looming on November 3.The RBA is expected to cut the cash rate to a record low while lowering the target for the yield on 3-year Australia government bonds. Market participants also expect it to introduce a program of bond purchases and QE under its yield curve control mechanism. The markets have already priced in a rate cut down to 0.10%, but investors should monitor movements after the actual announcement. RBA deputy governor Guy Debelle recently commented that the Australian economy had begun growing again and would return to positive growth in the third quarter. Given this, investors will need to scrutinize the RBA's statement for what it says about the current economic situation and the prognosis from here on.

As for the US presidential election, there have been many postal votes this time, so counting is unlikely to finish on the day. As such, fluctuation risk will remain from November 3 onwards. After the election, the focus will shift back to negotiations about a new economic package in the US, with the currency pair set to be swayed by headlines until an agreement is reached.

Mizuho Ashizaki, Canada Office, Americas Treasury Department

# Canadian Dollar – November 2020

**Expected Ranges** **Against the US$: C$1.3000–1.3600**
**Against the yen: JPY76.00–81.00**

## 1. Review of the Previous Month

The USD/CAD pair opened October trading at C$1.3289. As a second Covid-19 wave hit various regions, risk aversion swept the markets. Reports said Joe Biden was on course to win the high-profile US presidential election, but a President Trump comeback could not be ruled out, so uncertainty prevailed. Market sentiments worsened as investors remained in wait-and-see mode with regards to a new US economic package. As hopes about the package rose in the latter half of the month, the greenback moved bearishly, though it then began climbing toward the end of the month as Covid-19 surged again in Europe and elsewhere, for example, and no decision was reached on a new economic package for the US.

The US employment data was released on October 2. The result was good, with the unemployment rate falling to 7.9%, but with news emerging that President Trump had contracted Covid-19, uncertainty about the presidential election grew and risk aversion intensified. The USD/CAD paired soared to C$1.3332. Transitory buying was supported by news that President Trump was getting better, with the Canadian dollar steadily recovering. The Canadian August trade balance was released on October 6. Though it had improved slightly on the previous month, the deficit still hit $2.45 billion as opposed to expectations for $2.05 billion. At $92.3 billion, the US August trade deficit was also up sharply on the $63.4 billion figure recorded in July. The market reaction was muted, though. Stocks then fell on news that President Trump had pushed back talks on an economic package until after the November presidential election. The USD/CAD pair rose to C$1.3341, but with President Trump then indicating on Twitter he would approve a bailout package for the aviation industry and small and medium sized companies, the greenback was sold. As a result, the pair fell to the lower-C$1.32 level. The Canadian employment data was released on October 9. The unemployment rate was down on the previous month and on expectations, while the number of people in work rose by 378,200, up sharply on expectations for a 150,000 rise. The Canadian dollar was bought on these bullish results. As a hurricane approached the Gulf of Mexico, concerns grew about a suspension of crude oil production, with the Canadian dollar also pushed up by rising crude oil futures. The markets also reacted well when President Trump said he was preparing an economic package bigger than anything the Democrats were planning. With the greenback also being sold on risk appetite, the currency pair hit C$1.311. The pair traded in a narrow range thereafter. Hopes about a new economic package in the US then receded, while the US released some bearish economic indicators, so the greenback was bought on risk aversion and the currency pair rallied to C$1.3259 on October 15. It then dropped back to C$1.3081 on October 20 on reports that an agreement on a US economic package was close. Covid-19 cases surged in Europe and elsewhere at the month's end. Investors were disappointed when a new US economic bailout was kicked into the long grass. With concerns also growing about falling demand, crude oil prices fell to $34.92 for the first time since June. As risk aversion intensified, the greenback as bought and the USD/CAD pair hit a monthly high of C$1.3390.

## 2. Outlook for This Month

The number of Covid-19 cases in Canada has topped 200,000 on a second wave. Canada, Mexico and the US have agreed to extend travel restrictions, while new urban lockdowns have been introduced in regions impacted by the Covid-19 surge, so concerns are growing about a further slowdown in economic activity. The Bank of Canada (BOC) cut its policy rate to 0.25% in March and it has also introduced several programs to ensure market liquidity. With state debt ballooning on these easing measures, an international financial institution predicted that Canadian government debt would rise from 89% of GDP in 2019 to 115%. Ex-BOC governor Stephen Poloz said in an interview that there were limits to the central bank's easing measures. He added that government funds should be used for productive purposes in order to contribute to economic development, for example, and he expressed concerns about swelling debt. Finance minister Chrystia Freeland also talked about the limits of government support during a forum, but she also said the government was planning some large-scale economic stimulus before the year's end, so hopes have grown.

The BOC kept its policy rate fixed at 0.25% when it met to set policy on October 28. It warned that economic activity was clearly slowing on the second Covid-19 wave. It also said it would keep interest rates low until 2023, adding that it would reduce its purchases of government debt from $5 billion a week to $4 billion. It also said it would tweak it asset purchasing program again and purchase long-term bonds in order to impact borrowing rates and support households and businesses. Furthermore, BOC governor Tiff Macklem said in an interview that the US growth rate would undergo a worse-than-expected deterioration in the fourth quarter and he voiced concerns about the impact of this on Canadian exports, with the Canadian dollar also set to move bearishly. US presidential and congressional elections will be held on November 3. Opinion polls are pointing to a Democrat victory. If Joe Biden does win, the greenback will probably weaken as hopes grow for an economic recovery on new policies. Crude oil prices look set to rise on hopes for a revival in demand and a Chinese economic recovery, but they will be weighed down on the topside by the spread of Covid-19. The OPEC+ Joint Ministerial Monitoring Committee will be meeting on November 30. It looks set to discuss adherence to the agreed plan to curtail production to avoid a sharp fall in crude oil prices, but it might also look at extending the agreement until next year, so the meeting will require monitoring. In November, investors should also keep a close eye on the US presidential election, a new US economic package, US/China trade frictions, crude oil markets, the spread of Covid-19, and the development of a vaccine. With several regions reimposing lockdowns in the face of a Covid-19 resurgence, the USD/CAD pair's room on the downside will be capped.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

# Korean Won – November 2020

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|---|---|
| **Expected Ranges** | **Against the US$: KRW1,100–1,150** |
| | **Against the yen: JPY8.929–9.434 (KRW100)** |
| | **(KRW10.600–11.200)** |

## 1. Review of the Previous Month

The USD/KRW pair fell sharply in October.

With South Korea on holiday due to the Mid-Autumn Festival, risk aversion flared up overseas at the weekend on news that President Trump had contracted Covid-19, for example, with the currency pair opening the month trading at KRW1166.5 on October 5. With Joe Biden gaining more support and extending his lead over President Trump, it seemed the presidential election would not be a close battle, with no turmoil thus expected after the election. Market sentiments were also boosted when President Trump tweeted about a bailout package for the aviation industry and small and medium sized companies. The pair fell to KRW1153.3 on October 8. The pair then floated around the key KRW1150 mark, but the won was then bought by exporters concerned about won bullishness, so the pair dipped below KRW1150. On October 14, the Ministry of Strategy and Finance made a verbal intervention in the markets, but the pair did not rally as a result. In the following week, the markets focused on the possibility that a new US economic package might be agreed before the presidential election. With the won also being bought on real demand, the currency pair weakened to KRW1131.1 on October 19. It seemed the authorities intervened in the foreign exchange markets on October 22, with the pair rallying to KRW1138.5. However, amid a dearth of factors pushing the pair higher, it soon dropped back. Covid-19 surged again in the US and Europe, while new restrictions were introduced across Europe. With South Korea relatively unscathed by the Covid-19 outbreak, the won was bought. The South Korean 3Q data was released on October 27. It had been boosted by a bullish manufacturing sector, with GDP up 1.9% on the previous quarter and 1.3% on expectations. This bullish result saw the pair dipping below KRW1130 to hit a monthly low of KRW1125.0. Nonetheless, the authorities appeared to intervene in the markets, so the pair rallied to close the month trading at KRW1135.1.

## 2. Outlook for This Month

The USD/KRW pair looks set to continue trading with a heavy topside in November.

The US presidential election is looming on November 3. If the race is close and it takes time before the results are clear, market volatility will rise and the dollar might be bought on risk aversion. In the end, though, the greenback looks set to continue moving bearishly on the accommodative policy environment. The markets are also focusing on the renewed Covid-19 outbreak in the US, Europe and elsewhere. Europe has already imposed new restrictions and the US might also follow suit by introducing new lockdowns or other tougher restrictions. South Korea has been relatively unscathed by Covid-19, so the won will be susceptible to buying against the dollar. 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 keep easing until it hits average inflation rate of 2%, but FOMC members have 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) met on October 14, it maintained its forecast for negative growth of -1.3% in 2020. With South Korea's 3Q GDP also beating market expectations to rise 1.9% on the previous quarter, the BOK is unlikely to ease further going forward. As such, the currency pair will probably not fluctuate much on monetary easing.

Under these circumstances, the pair will probably slide towards KRW1100, a level set as a target for the pair's downside. This would represent a sharp slide, so the authorities will probably intervene in the markets, with the pair rallying at times, but investors will probably regard this as an opportunity to build up short positions, so the pair will probably slide again thereafter.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

# New Taiwan Dollar – November 2020

**Expected Ranges** **Against the US$: NT$28.40–28.90**
**Against the yen: JPY3.60–3.70**

## 1. Review of the Previous Month

The USD/TWD pair hit its lowest level in roughly nine years in October.

The pair opened the month trading at TWD29.100. The Taiwan dollar had moved bullishly at the end of September and this trend continued when Taiwan returned from the Mid-Autumn Festival holiday that took place at the start of the October. Exporters had sold the greenback at the end of September and this trend also continued into October. There was also selling by exporters unable to withstand the Taiwan dollar's strength. As a result, the USD/TWD pair temporarily fell to TWD28.710 on October 6. Taiwanese stocks were then pulled along by US stocks, with the currency pair floating around TWD28.7.

US stocks rose mid-October on expectations that legislators in the US would reach an agreement on a new economic package. Taiwanese stocks also rose and the Taiwan dollar was bought. The pair fell to TWD28.600 for a time on October 12, but with hopes for a new US bailout fading, Taiwanese stocks fell and the USD/TWD pair edged back to around TWD28.750.

The pair continued to move around TWD28.650 late October. As the end of the month approached, exporters steadily sold the greenback, with the pair dipping below TWD28.600 on October 27. It temporarily renewed a recent low of TWD28.565 on October 28 to hit its lowest level in around nine years and four months. However, Taiwanese stocks then fell on concerns about the resurgence of Covid-19 in Europe and so on, so the pair moved firmly around 28.600.

## 2. Outlook for This Month

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

September marked the end of the quarter, which partially explains why exporters faced strong pressure to sell the greenback, though exporters also faced pressure to sell the US dollar in October too.

Taiwan's export amount rose by +9.4% year-on-year in September, while the leading export orders indicator also rose by +9.9% y-o-y, with the amount hitting a record for September. As this shows, Taiwanese exports remain bullish. The Taiwan dollar will continue to strengthen on real demand in November too.

Taiwanese exports have increased this year as more people work from home due to Covid-19, with exports also boosted by growing demand for semiconductors in the wake of US/China trade frictions. Covid-19 seems to be surging again, so demand related to teleworking will remain strong. As for the US presidential elections, Joe Biden is not friendly to China either, so US/China frictions are unlikely to ease whoever wins. As such, it seems Taiwanese exports will continue to increase. The third quarter preliminary GDP data posted a healthy 3.33% y-o-y rise. The breakdown shows exports making a major contribution amid falling consumer spending.

However, risk factors include the resurgence of Covid-19 and the Taiwan dollar's strength.

Taiwan has managed to keep a lid on Covid-19, but areas in Europe are having to lockdown again. Taiwanese stocks could also be sold on a global economic recession and falling stock prices, so caution will be needed. Furthermore, the Taiwan dollar's strength is hurting traditional industries like machinery, with the unit's bullishness threatening industry as a whole. If the unit tops $28.500 against the greenback, it could close in on its highest level since the Asian currency crisis, though the Taiwanese authorities might take action in response to industry complaints, so the situation will require monitoring.

Ken Cheung, East Asia Treasury Department

# Hong Kong Dollar – November 2020

**Expected Ranges** **Against the US$: HK$ 7.7500–7.7700**
**Against the yen: JPY 13.25–13.70**

## 1. Review of the Previous Month

**The Hong Kong dollar spot exchange market in October**

In October, there was strong demand for the Hong Kong dollar as related to IPOs in the Hong Kong stock market, as was the case in the previous month. As a result, the U.S. dollar/Hong Kong dollar exchange rate continued fluctuating at around the HKD 7.75 level, which is the upper end of the fluctuation band for the Hong Kong dollar. The Hong Kong Monetary Authority (HKMA) intervened in the foreign exchange market in order to maintain the U.S. dollar peg, selling the Hong Kong dollar at a record high volume for consecutive days. Also, the IPOs of Chinese fintech companies scheduled for November in both the Shanghai and Hong Kong stock markets has been expected to involve a total of USD 35 billion, and this led to a capital inflow for the purpose of stock purchases. The appreciation of the Hong Kong dollar has also been supported by the fact that market participants continue to buy Hong Kong stocks through the Stock Connect scheme (which is a mutual stock transaction scheme between Mainland China and Hong Kong) for an extended period of time. Carry trades through Hong Kong dollar-buying and U.S. dollar-selling declined, as the one-year U.S. dollar/Hong Kong dollar forward point fell to the +40-point level. The labor market in Hong Kong weakened due to the third wave of the Covid-19 crisis, and the September unemployment rate exceeded the 6.1% recorded in the previous month, reaching 6.4%—the highest rate in 16 years (while the market estimate was 6.2%). The effect of employment support by the government has been disappearing, and various companies are likely to cut employment in the times ahead, which would raise the unemployment even further in the next several months.

**The Hong Kong dollar interest rate market in October**

The HKMA has been intervening in the foreign exchange market more frequently than before by selling the Hong Kong dollar, and the aggregate balance of the HKMA exceeded the HKD 380 billion level for the first time since the beginning of 2016, rising further to reach USD 450 billion, the all-time high, thereafter toward the end of the month. The demand for the Hong Kong dollar based on forthcoming IPOs was offset by the market intervention by the HKMA through Hong Kong dollar-selling, and this kept the Hong Kong dollar interest rates relatively stable in October. The one-month Hong Kong dollar HIBOR and the three-month Hong Kong dollar HIBOR fell by 10 basis points to approach 0.40% and 0.50%, respectively. On the other hand, the spread between the one-month and three-month Hong Kong dollar HIBOR and the U.S. dollar LIBOR narrowed down to around +30 basis points. As the liquidity level of the Hong Kong dollar has been high, the three-month Hong Kong dollar HIBOR fell below the five-year swap rate, resulting in a negative carry, albeit the difference was small.

## 2. Outlook for This Month

**The Hong Kong dollar spot exchange market in November**

As a large number of Chinese companies are scheduled to hold IPOs, the U.S. dollar/Hong Kong dollar exchange rate is forecast to remain at around the HKD 7.75 level, which is the upper end of the fluctuation band for the Hong Kong dollar, until the end of the year. From this point of view, it is unlikely for the Hong Kong dollar to depreciate significantly even after the large-scale IPO of a Chinese fintech company scheduled for the beginning of November. Also, the tensions between the U.S. and China would not be mitigated even if there is a change in the U.S. presidency or U.S. government officials after the U.S. presidential election. Thus, Chinese companies listed at stock markets in the U.S. are likely to continue trying to be also listed in Hong Kong in order to hedge risks related to any actions that the U.S. might take against China. Other Chinese companies would also prefer to be listed in Hong Kong rather than in the U.S. Even though risks of U.S. sanctions against Hong Kong have been more or less controlled, pressure for capital outflow from Hong Kong may strengthen if there is any new sanction against Hong Kong that impacts the U.S. peg or the status of Hong Kong as an international financial center. It is likely for the Federal Reserve Board (FRB) to maintain the interest rate at around 0% for the next several years, maintaining the small differentials between the Hong Kong dollar and the U.S. dollar, and this would keep market participants from conducting carry trades.

**The Hong Kong dollar interest rate market in November**

Thanks to the large amount of liquidity supply by the HKMA, the liquidity level of the Hong Kong dollar is forecast to remain high in November. The HKMA intervened in the market by selling the Hong Kong dollar at a record-high volume for consecutive days, leading the HKMA aggregate balance to exceed HKD 450 billion toward the end of the month. The HKMA is likely to maintain the Hong Kong dollar liquidity level sufficiently high so as to respond to IPO demand for the time being. Any excessive liquidity would be absorbed through an increased issuance of exchange fund bills. Looking back, the HKMA aggregate balance rose to approach HKD 430 billion during the second half of 2015, and the HKMA started to lower the liquidity level. However, this time, the HKMA would probably allow the aggregate balance to exceed the HKD 450 billion level, as other major central banks have been supplying a large amount of liquidity after the breakout of the Covid-19 crisis. Short-term Hong Kong dollar interest rates would face upward pressure during IPOs scheduled in the times ahead. On the other hand, long-term interest rates are likely to remain low under the U.S. dollar peg, as the FRB is expected to maintain low U.S. interest rates with an average inflation target.

Hiroshi Takemoto, Treasury Department, MHBK (China)

# Chinese Yuan – November 2020

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|---|---|
| **Expected Ranges** | **Against the US$: CNY 6.6500–6.9500** |
| | **Against the yen: JPY 14.53–16.09** |
| | **Against 100 yen: CNY 6.2100–6.8800** |

## 1. Review of the Previous Month

In October, the Chinese yuan appreciated significantly against the U.S. dollar, and the exchange rate briefly reached the CNY 6.64 level.

After the National Day of China, the U.S. dollar/Chinese yuan onshore exchange market opened trading with a significantly stronger Chinese yuan than the previous trading day. At the presidential debates involving the presidential candidates, held before the National Day of China, many expected Joe Biden to win the election, and this strengthened pressure to sell the U.S. dollar. Under such circumstances, the Chinese yuan remained strong in the offshore market during the consecutive holidays in China. Following the trend in the offshore market, the U.S. dollar/Chinese yuan onshore exchange market also opened at the CNY 6.73 level, after which the Chinese yuan continued appreciating to the CNY 6.69 level.

On October 13, the People's Bank of China (PBOC) practically abolished the foreign exchange risk reserve ratio for financial institutions by cutting the ratio from 20% to 0%. As a result, the Chinese yuan weakened temporarily. However, this trend did not last for a long time, and the Chinese yuan started appreciating again.

On October 21, risk-taking sentiment grew in the market with expectation for an agreement on additional economic measures in the U.S., accelerating U.S. dollar-selling and Chinese yuan-buying. As a result, the U.S. dollar/Chinese yuan exchange rate fell below the CNY 6.67 level, the record low observed in March in 2019, after which the Chinese yuan continued appreciating further and the exchange rate briefly reached the CNY 6.64 level. Thereafter, the exchange rate rallied as some market participants bought back the U.S. dollar.

Toward the end of the month, the spread of Covid-19 accelerated again in the Europe and the U.S., leading some countries to go back into lockdown. Market participants expected impact on the economy, strengthening pressure to buy the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate exceeded the CNY 6.70 level. On October 28, the PBOC discontinued the use of the counter-cyclical factor in calculating the central parity rate, easing control over the Chinese yuan exchange rate.

## 2. Outlook for This Month

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

The PBOC has been easing its control over the Chinese yuan exchange market, by practically abolishing the foreign currency risk reserve ratio while also discontinuing the use of the counter-cyclical factor, and this temporarily weakened the Chinse yuan in October. However, the trend of the Chinese yuan appreciation has not changed.

China has been ahead of other countries in normalizing its economy after taking measures against the Covid-19 crisis, making market participants aware of the differences in monetary policy and fundamentals between the

U.S. and China. This has been supporting the Chinese yuan in relative terms, and thus the Chinese yuan is forecast to remain strong for the medium-to-long term.

It should also be mentioned that if Joe Biden wins the U.S. presidential election and if both the Senate and the House of Representatives are dominated by the Democratic Party, economic measures would be finally taken in the U.S. after a series of difficulties. This would be a positive factor in the market and would further strengthen the upward pressure on the Chinese yuan.

Risk factors include the resurgence of the trade war between the U.S. and China after the U.S. presidential election as well as the intensification of opposition over Hong Kong, the South China Sea, and Chinese companies, all of which would potentially weaken the Chinese yuan.

Hayaki Narita, Asia & Oceania Treasury Department

# Singapore Dollar – November 2020

**Expected Ranges** **Against the US$: SG$ 1.3500–1.3900**
**Against the yen: JPY 75.50–77.00**

## 1. Review of the Previous Month

In October 2020, the Singapore dollar weakened slightly against the U.S. dollar.

At the beginning of the month, the Singapore dollar appreciated against the U.S. dollar toward October 10. The media reported that U.S. President Donald Trump was recovering from Covid-19, while there were rumors that the U.S. was drafting a bill to provide direct cash subsidies to companies in order to provide support. Under such circumstances, stock prices rose, and the U.S. dollar depreciated, while the currencies of emerging countries appreciated. On October 9, the Chinese yuan appreciated significantly after the closure of the market, supporting the Singapore dollar. As a result, the Singapore dollar appreciated, and the U.S. dollar/Singapore dollar exchange rate, which was at the mid-SGD 1.36 level at the beginning of the month, briefly reached the lower-SGD 1.35 level.

However, the trend was inverted thereafter from the week commencing on October 12. The People's Bank of China announced its decision to abolish the foreign exchange forward reserve ratio at the end of the previous week, as a result of which market participants sold the Chinese yuan, causing the depreciation of the overall currencies of emerging countries. Furthermore, the media reported that a pharmaceutical company in the U.S. halted its Covid-19 vaccine trials while expectations for additional economic measures in the U.S. were fading. As a consequence, risk-averse sentiment grew in the market, encouraging market participants to sell the Singapore dollar.

On October 20, the currencies of emerging countries remained weak, including the Thai baht, which weakened due to days of protests against the Thai government. However, thereafter, stock prices rallied in Europe and the U.S., raising expectations for additional economic measures in the U.S. As a result, risk-taking sentiment grew in the market and the Singapore dollar appreciated, leading the U.S. dollar/Singapore dollar exchange rate to reach the lower-SGD 1.35 level again.

However, such trend slowed down toward the end of the month. While the media reported that Covid-19 was spreading again in Europe, stock prices fell, which led to the depreciation of the euro and the appreciation of the U.S. dollar, fueling risk-averse sentiment in the market. Under such circumstances, the Singapore dollar weakened. The trend was then inverted, and the U.S. dollar/Singapore dollar exchange rate, which was once at the lower-SGD 1.35 level, started to rise. Thus, the U.S. dollar/Singapore dollar is currently trading at the mid-SGD 1.36 level as of this writing.

## 2. Outlook for This Month

In November, the Singapore dollar is forecast to continue depreciating against the U.S. dollar.

On October 14, the Monetary Authority of Singapore (MAS) performed the semi-annual revision of its monetary policy and announced its decision to maintain existing measures of monetary easing. Equally, there was no change to the width of the policy band, the level at which it is centered, and the band's slope. Based on this decision, measures of monetary easing will be maintained for the foreseeable future.

In announcing this decision, the MAS explained that given the weak economic conditions and inflation outlook, it was an appropriate decision in order to supplement the fiscal, liquidity, and monetary policy in order to survive the declining economy that has resulted from the Covid-19 crisis. The Ministry of Trade and Industry announced the preliminary figure of the third-quarter GDP, which turned out to be –7.0% compared to the previous quarter, thus being weaker than the market estimate (the market estimate was –6.8% year-on-year). However, the decline was smaller than the second-quarter GDP (–13.2% from the previous quarter), suggesting that the worst moment has passed. Regarding the GDP outlook, the MAS commented that the recovery would be slow, as the external environment is worsening while the domestic service sector has been weakened and as the tourism-related sectors have been recovering only slowly. However, the MAS also predicted that the Singapore economy would expand in 2021, unless the Covid-19 pandemic worsens around the world again. It should also be mentioned that the decision made by the MAS this month had been anticipated in the market, and thus the impact on the market was limited.

The Singapore dollar exchange market is likely to fluctuate based on the headlines related to the tensions between the U.S. and China as well as the measures against the Covid-19 pandemic taken in various countries. The outcome of the U.S. presidential election remains unknown. It is possible that the result of the election will not be clear until the end of the year, which can be a factor for confusion in the market. It should also be mentioned that many see more positive news regarding the development of an effective vaccine against Covid-19. However, market participants should be aware of the fact that it may take some time to end the Covid-19 crisis, as some emerging countries may have difficulty in guaranteeing a sufficient supply of vaccines. As long as there are factors of vulnerability such as structural problems in emerging countries, the Singapore dollar is likely to remain weak no matter how much the Singapore economy recovers.

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

# Thai Baht – November 2020

**Expected Ranges** **Against the US$: THB 31.00–31.60**
**Against the yen: JPY 3.25–3.45**

## 1. Review of the Previous Month

In October, the U.S. dollar/Thai baht exchange market opened trading at around THB 31.60. On October 2, the media reported that the U.S. President Donald Trump had been infected with Covid-19, and this led the U.S. dollar/Thai baht exchange rate to rise to the mid-THB 31.60 level. However, the September employment statistics of the U.S. were released thereafter with both strong and weak figures, and thus there was no clear trend in the market until the end of the first week of the month. In the following week, the trend was inverted on October 5, as the media reported that U.S. President Donald Trump might be able to leave the hospital early, as a result of which the U.S. dollar/Thai baht fell below the THB 31.50 level. As a consequence, risk-taking sentiment grew in the market, and market participants continued selling the U.S. dollar, with the U.S. dollar being rapidly weakened, reaching the THB 31.30 level. Thereafter, the U.S. dollar/Thai baht exchange rate continued fluctuating in both directions between THB 31.10 and THB 31.40, following various headlines regarding progress in negotiations for additional economic measures in the U.S. However, market participants remained optimistic, and the currencies of emerging countries remained strong against the U.S. dollar. Thus, the U.S. dollar/Thai baht exchange market closed in the second week of the month at the THB 31.00 level.

In the middle of the month, the People's Bank of China (PBOC) announced its decision to take a measure to control the appreciation of the Chinese yuan, and this led the U.S. dollar/Chinese yuan exchange rate to rise. Following this trend, the U.S. dollar/Thai baht exchange rate rallied to briefly reach the THB 31.20 level. However, before the holiday, the rise of the exchange rate was adjusted during overseas trading hours. After the holiday, the U.S. dollar/Thai baht exchange rate approached the THB 31.30 level on October 14, due to concerns over protests against the Thai government. Thereafter, a large scale anti-government protest was held, but there was no military involvement, and the market remained relatively stable. Then, on October 15, the government declared a state of emergency, banning any gathering of more than five people, and this led the U.S. dollar/Thai baht exchange rate to fluctuate in both directions. However, the exchange rate remained at around the THB 31.20 level until the end of the third week of the month, as market participants seemed to want to wait and see the future development of the situation. Some market participants sold the Thai baht in the following week, while the anti-government protests continued. Even though the U.S. dollar/Thai baht exchange rate once reached the THB 31.30 level as a result, it did not remain at this level for a long time.

At the end of the month, market participants did not make significant changes to their positions, as there were mixed factors such as the optimism surrounding additional economic measures in the U.S., cautious sentiment over a second wave of the Covid-19 crisis in some regions in Europe and the U.S., and the approaching U.S. presidential election. As a result, the U.S. dollar/Thai baht exchange rate continued fluctuating within a range between the mid-THB 31.10 level and the THB 31.30 level without moving in one direction. Also, in the last week of the month, an extraordinary parliamentary session was held in order to discuss ways to end the ongoing anti-government protests. Prime Minister Prayut Chan-o-cha made a remark that he would set up a committee to solve the problem. In positively reacting to this news, the U.S. dollar/Thai baht exchange rate fell to the lower-THB 31.10 level. However, a nationwide lockdown was expected in Germany and France, and this led the U.S. dollar/Thai baht exchange rate to start fluctuating at around the THB 31.20 level again.

## 2. Outlook for This Month

In October, the currencies of emerging countries appreciated against the U.S. dollar despite the fact that Covid-19 was spreading again in Europe and in the Midwest in the U.S., while, in the runup to the presidential election, it has been difficult for the Trump administration and the Democratic Party to agree on additional economic measures. This means that market participants remain relatively optimistic about the situation. This is partly because of the fact that market participants are unable to move their positions before the U.S. presidential election, which is an extremely important event. However, it is remarkable that Asian currencies remained robust in October. As was the case with other Asian currencies, the Thai baht slightly appreciated against the U.S. dollar compared to the beginning of the month without any serious impact from the ongoing anti-government protests. Also, the U.S. presidential election is scheduled for the beginning of November, but some expect it to take a long time to know the result, as some states must wait for mail-in votes to arrive up to the week following. On the other hand, others expect the result to be out fairly soon even with such mail-in votes. It is thus extremely difficult to foresee the situation. Therefore, market participants are likely to maintain a wait-and-see attitude during the first week of November, keeping the U.S. dollar/Thai baht exchange rate within a narrow range. From the second week of November, the U.S. dollar/Thai baht exchange market is expected to start moving. Whether the winner is Joe Biden, the candidate that is seen to be more likely to win, or the current U.S. President, Donald Trump, the U.S. long-term interest rates are likely to rise with expectations for additional economic measures to be settled, encouraging market participants to buy back the U.S. dollar toward the second half of November.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

# Malaysian Ringgit – November 2020

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| **Expected Ranges** | **Against the US$: MYR 4.1000–4.2000** |
| | **Against the yen: JPY 24.8000–25.5000** |
| | **Against 100 yen: MYR 3.9300–4.0300** |

## 1. Review of the Previous Month

In October, the U.S. dollar/Malaysian ringgit exchange rate fluctuated within a narrow range between MYR 4.13 and MYR 4.17, as the Malaysian ringgit remained weak due to the second wave of the Covid-19 that spread in Malaysia as well as due to the political confusion seen before the parliamentary session in November to submit a budget bill. Meanwhile, the U.S. dollar also remained weak due to anticipation for the presidential election, for which some see the Democratic Party being more likely to win.

At the end of September, the FTSE Russell World Government Bond Index was revised, but Malaysian government bonds were kept as part of the index. Furthermore, the Malaysian government announced its plan to avoid a serious increase in the fiscal deficit as a percentage of GDP in the governmental budget bill for FY2021 scheduled to be out on November 6. As a result, the U.S. dollar/Malaysian ringgit exchange market opened at a level below the MYR 4.15 level at the beginning of the month. However, thereafter market participants reacted negatively to media reports such as that U.S. President Donald Trump contracted Covid-19 infection, as well as that of the rapid increase in the number of Covid-19 cases in Malaysia spreading from the local election in the Sabah state. As a consequence, the trend of the USD/MYR pair was inverted, and the U.S. dollar/Malaysian ringgit exchange rate rose to approach the MYR 4.17 level.

However, toward the middle of the month, the number of new Covid-19 cases in Malaysia recorded an all-time high on October 6, and, on October 8, the head of the opposition party, Anwar bin Ibrahim, repeated that the party should be allowed to meet the king, with the party obtaining a majority in the lower house, causing political confusion. However, the Malaysian ringgit was supported by the fact that the North Sea Brent crude oil price recovered to the USD 43/barrel level after falling below USD 44/barrel due to the cut in supply after Hurricane Delta hit the U.S., as well as because of a strike by petroleum industry workers in Norway. As market participants were also conscious of the fiscal burden of additional economic measures in the U.S., said trend of the USD/MYR pair above was again inverted, and the U.S. dollar/Malaysian ringgit exchange rate fell to the MYR 4.13 level on October 12. However, thereafter, the Malaysian government announced another conditional movement control order for two weeks starting from October 14. Thus, the control was strengthened for the first time since the introduction of the rule in March. Even though most economic activities were allowed to continue this time, market participants were concerned with impact on micro, small, and medium-sized companies, and thus the U.S. dollar/Malaysian ringgit exchange rate rallied again to approach the MYR 4.16 level.

Toward the end of the month, there was political confusion, as the former finance minister of UMNO, the largest ruling party in the coalition government under Prime Minister Muhyiddin Yassin, submitted a no-confidence motion against the government, while UMNO also submitted a demand to the Prime Minister. However, regardless of this, the trend of the USD/MYR pair, as above, became inverted again, and the U.S. dollar/Malaysian ringgit exchange rate fell below the MYR 4.14 level again, as the Chinese indices turned out to be strong while the U.S.

dollar was depreciating globally. Also, Prime Minister Muhyiddin Yassin proposed the declaration of the state of emergency with concerns over the operation of the government. However, on October 25, the king decided not to declare the state of emergency, while asking the ruling party and the opposition party to cooperate in passing the budget bill. As a result, the U.S. dollar/Malaysian ringgit exchange rate once rallied to the MYR 4.16 level. However, the exchange rate started to fall again, as the September exports turned out to be unexpectedly strong. As of October 28, the U.S. dollar/Malaysian ringgit has been trading at the MYR 4.14 level.

## 2. Outlook for This Month

In November, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate within a range between MYR 4.10 and MYR 4.20. Also, the U.S. dollar is likely to weaken due to the spread of Covid-19 in the U.S. and Europe, and it is being felt that the winner of the U.S. presidential election will be the Democratic Party. On the other hand, in Malaysia, the third wave of the Covid-19 crisis does not seem to be ending any time soon, slowing down domestic economic activities in 2020 with the reintroduction of the conditional movement control order in some metropolitan areas. Also, the governmental budget bill for FY2021 is to be submitted at the parliamentary session to be held on November 6, and it is likely that "wartime" financial measures will be maintained. However, the government needs to make it clear to major ratings agencies (as well as to foreign investors) that have already downgraded the outlook for the sovereign rating of Malaysia (currently already A–) that Malaysia is ready to normalize its fiscal policy for the post-crisis period. Under such circumstances, persistent political concerns are likely to keep the Malaysian ringgit weak.

In October, the spread of Covid-19 cases that started at the time of the local election of Sabah state reached the Malay Peninsula through Borneo island. On October 14, the government declared a conditional movement control order again in metropolitan areas (Kuala Lumpur, Selangor, and Putrajaya). Unlike in May, most economic activities were allowed to continue. However, there will be negative impact on personal consumption in these metropolitan areas, pushing down the GDP of the fourth-quarter period.

The governmental budget bill for FY2021 is for the first year of the Twelfth Malaysia Plan, and the government under Prime Minister Muhyiddin Yassin has already expressed its intention to follow the "Shared Prosperity 2030" medium-term vision as announced by the former government under Mahathir Mohamad. Thus, there is unlikely to be any change in the basic strategy. On the other hand, the budget bill is expected to include an economic measure against the Covid-19 crisis to replace the current subsidy for wage support that is to finish at the end of the year. While the fiscal deficit for this year is expected to be –6 to –7% of GDP, the fiscal deficit for FY2021 is also expected to record a significant fiscal deficit at around –5% of GDP. Ratings agencies such as S&P and Fitch have already downgraded the sovereign rating outlook for Malaysia, and market participants should wait for their reaction to the budget bill.

Under such circumstances, the political situation remains uncertain. The head of the opposition party, Anwar bin Ibrahim, made a remark that the opposition had already obtained the majority of votes at the Lower House, but the head (Ahmad Zahid Hamidi) of the largest ruling party, UMNO, expressed his intention on October 24 to continue supporting the Perikatan Nasional government, and this calmed the situation for the moment. The king asked the ruling party and the opposition party to cooperate in passing the budget bill, while the opposition party also showed a positive attitude toward a resolution. Thus, the worst-case scenario is likely to be avoided. Yet, uncertainty over the political situation is likely to persist, negatively impacting the Malaysian ringgit exchange market.

Yu Tasai, Asia & Oceania Treasury Department

# Indonesian Rupiah – November 2020

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| **Expected Ranges** | **Against the US$: IDR 14,400–15,200** |
| | **Against 100 rupiah: JPY 0.68–0.72** |
| | **Against the yen: IDR 138.89–147.06** |

## 1. Review of the Previous Month

In October, the U.S. dollar/Indonesian rupiah exchange market remained stable.

On October 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at around IDR 14,900. On the same day, the September Consumer Price Index of Indonesia was released, and the figure remained weak at +1.42% year-on-year. As U.S. dollar-buying slowed down, the Indonesian rupiah remained robust. In the following week, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,800 level on October 5, and the Indonesian rupiah continued appreciating to approach the IDR 14,800 level, as the Jakarta stock price index rose with expectations for the omnibus "job creation" bill (to consolidate various overlapping bills) before the bill's discussion. The bill was then approved and adopted with the majority voting in favor of the bill, to which market participants positively reacted. As a result, the Indonesian rupiah appreciated significantly in the offshore NDF market. Following this trend, the Indonesian rupiah appreciated significantly against the U.S. dollar to approach the IDR 14,600 level on October 6, the following day. As this was a good price for the U.S. dollar, demand to buy the U.S. dollar increased and the U.S. dollar/Indonesian rupiah exchange rose to the IDR 14,700 level and continued fluctuating at the same level. While a monetary policy meeting at the central bank was scheduled for the October 13, this trend gradually changed, and the Indonesian rupiah exchange did not move into any direction thereafter.

In the middle of the month, the central bank of Indonesia held a monetary policy meeting on October 13 and decided to maintain the policy interest rate at 4.00%, as had been anticipated in the market. As there was no particular surprise in the decision, it did not impact the exchange market. Then, on October 15, the September trade balance of Indonesia was announced, revealing a significant surplus that exceeded USD 2.4 billion. The domestic economy of Indonesia remains sluggish, and imports have declined dramatically, which was the reason for the increase in the surplus. As there were no other factors in the market, the Indonesian rupiah remained robust thereafter. As a result, the U.S. dollar/Indonesian rupiah exchange rate fell below the IDR 14,700 level again, and the Indonesian rupiah then continued strengthening against the U.S. dollar to the upper-IDR 14,600 level on October 19.

At the end of the month, the Indonesian rupiah remained robust at around the upper-IDR 14,600 level, while there were no domestic factors prevalent in Indonesia. Before the long holidays at the end of the month, there was certain demand to buy the U.S. dollar. Under such circumstance, the U.S. dollar/Indonesian rupiah exchange rate remained at the IDR 14,600 level. On October 27, the last trading day in October, the Indonesian rupiah strengthened against the U.S. dollar to reach the lower-IDR 14,600 level, and monthly trading closed (as of market closing on October 29).

## 2. Outlook for This Month

In November, the Indonesian rupiah is forecast to depreciate against the U.S. dollar.

First of all, the market is likely to react sensitively to any headlines related to the presidential election in the U.S., which as of this writing, will take place soon. Violent fluctuations in the offshore NDF market can lead to violent fluctuations in the onshore rupiah market as well. Even though it is impossible to predict which candidate will win the U.S. presidential election, the U.S. dollar/Indonesian rupiah market is expected to be more stable once the result has been seen, and market participants will look more at domestic factors in Indonesia.

In Indonesia, the situation of the Covid-19 pandemic remains serious, and in major countries there has been a second wave of the crisis. In particular, the situation in Europe and the U.S. has been deteriorating rapidly. As some countries have announced a second lockdown, there may be significant impact on the world economy again. Market participants should be cautious of the possibility for capital outflow from Indonesia to increase in the short run, as investors are likely to avert risks.

In October, there was capital inflow into Indonesia, thanks to the enactment of the omnibus law, which supported the Indonesian rupiah exchange market. However, it is questionable if capital inflow will continue for a long period of time, as there have been some protests against this law, as it is considered to favor employers rather than employees. As it is also important to know the details and effectiveness of the law, market participants should remain attentive of any subsequent information regarding this situation.

With regard to capital inflow into Indonesia, in the 10-year Indonesian government bond market, there was a net buy of over USD 2.2 billion from foreign investors in October compared to the end of the previous month. This was the largest net buy on a single-month basis since March this year in which there was a significant amount of capital outflow. However, the situation is unchanged in that there has been a direct purchase of government bonds by the central bank, while concerns persist over the question of independence. Therefore, market participants should remain attentive of the possibility of an inversion of trends, by carefully following headlines related to this topic.

For the reasons above, market participants should be cautious about the depreciation of the Indonesian rupiah, as there will be some worrying factors related to the Indonesian rupiah—as has been the case so far.

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

# Philippine Peso – November 2020

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| **Expected Ranges** | **Against the US$: PHP 47.50–49.00** |
| | **Against the yen: JPY 2.135–2.185** |

## 1. Review of the Previous Month

In October, the U.S. dollar/Philippine peso exchange market opened trading at PHP 48.46.

After the trading hours of October 1, the central bank of the Philippines decided to maintain its policy interest rate at the existing level, as had been anticipated in the market. On October 2, the media reported that U.S. President Donald Trump had been infected with Covid-19, and this caused confusion in the market and strengthened risk-averse sentiment. However, the U.S. dollar/Philippine peso exchange rate moved only to a limited degree.

On October 2, the September employment statistics of the U.S. were released, but the U.S. dollar/Philippine peso exchange rate did not move in any direction on October 5. On October 6, the September Consumer Price Index of the Philippines was announced, and the result turned out to be 2.3%, as had been expected in the market, showing a decline from the 2.4% recorded in the previous month. This result confirmed the fact that inflation has been controlled with the crude oil price remaining low and stable, which supported the Philippine peso exchange market, while market participants were dominantly selling the U.S. dollar, negatively reacting to the situation in which there was no progress in the decision related to additional economic measures in the U.S.

On October 9, the Philippine peso renewed its high since the beginning of the year, temporarily trading at PHP 48.28 against the U.S. dollar.

Thereafter, the trend became inverted, and market participants started to sell the Philippine peso. Also, the Chinese yuan weakened against the U.S. dollar, as the People's Bank of China (PBOC) abolished an existing regulation that had been introduced to control Chinese yuan depreciation. The trend impacted the Philippine peso exchange market as well. Furthermore, European currencies weakened due to concerns over Covid-19 cases, which were increasing again, resulting in a rise of the U.S. dollar index, while the August amount of Overseas Filipino Workers remittances recorded a decline of 4.1% year-on-year, significantly lower than the market estimate, which was an increase of 5.3% year-on-year. As a result, the U.S. dollar/Philippine peso pair traded at PHP 48.69 on October 14 and 15—the lowest rate for the Philippine peso against the U.S. dollar in seven weeks.

Toward the second half of the month, the Chinese yuan started to appreciate again, and optimism spread in the market regarding the negotiations on additional economic measures in the U.S. Also, risk-averse sentiment did not grow significantly in the market, even with the sharp fall of U.S. stock prices. The Philippine peso thus strengthened against the U.S. dollar to the PHP 48.30–48.40 level (as of October 29).

## 2. Outlook for This Month

As was mentioned above, on October 1, the central bank of the Philippines decided to maintain its policy interest rate at the existing level while revising forward the inflation outlook for this year from 2.6%, which had been announced previously, to 2.3%.

The governor of the central bank of the Philippines, Benjamin Diokno, made a remark that inflation remained at the 2% to 4% level (the target range set out by the central bank), and there were signs of economic recovery, which led him to believe that the existing monetary policy was appropriate. He also mentioned that he was always ready to take actions of monetary easing in order to support economic recovery.

With regard to the appreciation of the Philippine peso that was recently witnessed in the market, Diokno commented that the foreign exchange rate should be evaluated within the market and that the central bank would intervene in the market if there is a significant change in the trend, although such would only to balance the market. Some market participants were likely to understand the remark as a demonstration of his attitude to tolerate the appreciation of the Philippine peso.

In the fourth week of October (October 19–23), the U.S. dollar/Philippine peso exchange market opened trading at PHP 48.62 and closed trading at PHP 48.48. On October 28, the Philippine peso appreciated against the U.S. dollar to PHP 48.33. However, in general, the Philippine peso remained weak due to the fact that market participants bought the U.S. dollar based on actual demand.

The Asian currency index also reached its high in two years and three months, and the Philippine stock price index continued rising for five consecutive days from October 19, rapidly exceeding the 6,000-point mark and reaching 6,484.06 points at market close on October 23. This means that the index recorded an increase of almost 10% from the closing rate of October 16, approaching 6,583.84 points—the highest record observed at the beginning of June when the index rallied after bottoming out in March as a result of the outbreak of the Covid-19 crisis.

In the fourth week of October, there was a weekly net buy from foreign investors in the Philippine stock market for the first time in 10 weeks, and this made it likely for the Philippine peso to appreciate.

It should also be mentioned, however, that the Philippine peso has appreciated too much from an objective point of view, given that the current level of the U.S. dollar/Philippine peso exchange rate has been at its highest in four years.

Under such market conditions, the Philippine peso is expected to renew its highest rate since the beginning of the year as soon as the exchange market has become stable again with no more event risks related to the U.S. presidential election.

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

# Indian Rupee – November 2020

**Expected Ranges** **Against the US$: INR 72.00–75.00**
**Against the yen: JPY 1.37–1.46**

## 1. Review of the Previous Month

**In October, the U.S. dollar/Indian rupee exchange rate appreciated after fluctuating at the same level for a while.**

In October, the U.S. dollar/Indian rupee exchange market opened trading at INR 73.615. While the liquidity level was low before three consecutive holidays, the exchange rate fell to INR 73.05. In the following week, market participants dominantly bought the Indian rupee on October 5, as the media reported that an overseas company was to invest in the retail sector of an Indian company. However, the Indian monetary authorities constantly intervened in the market by buying the U.S. dollar, and this kept the U.S. dollar/Indian rupee exchange from falling further. Thereafter, risk sentiment improved in the market as U.S. President Donald Trump, who caught Covid-19, left hospital. Furthermore, multiple U.S. equity funds invested USD 1.6 billion in total in Reliance Retail, and this was a domestic factor in India to encourage market participants to buy the Indian rupee and sell the U.S. dollar. However, the impact of this trend was offset by market intervention through U.S. dollar-buying, in the end. On October 9, the central bank of India announced the outcome of its monetary policy meeting. In reaction, the U.S. dollar/Indian rupee exchange rate reached PHP 73.02—the monthly low. However, as market participants remained cautious about market interventions, the exchange rate did not fall below the INR 73 level.

In the week commencing on October 12, market participants continued buying the Indian rupee based on capital inflow from abroad, while market intervention based on Indian rupee-selling also persisted. In the U.S. there were two major factors of uncertainty, the fiscal stimulus plan and the presidential election. Thus, the market did not move significantly, and the U.S. dollar/Indian rupee exchange rate continued fluctuating within the range between INR 73.00 and INR 73.50 for eight consecutive business days until October 19.

This trend was broken through on October 20, when the U.S. dollar/Indian rupee exchange rate exceeded the INR 73.50 level, following the media report that the central bank of India was actively intervening in the market by buying the U.S. dollar. On October 22 and 23, the U.S. dollar/Indian rupee exchange rate continued fluctuating with the INR 73.80 as the upper end. However, risk sentiment worsened thereafter, as various countries announced lockdowns and restrictions to movement again in order to slow Covid-19 infections, while the second wave of the pandemic was becoming increasingly serious in many countries in Europe. As a consequence, market participants avoided the currencies of emerging countries. Following the trend, the U.S. dollar/Indian rupee exchange rate rose even further but remained below the INR 74.00 level. However, at the end of the month, the U.S. dollar/Indian rupee exchange rate reached the monthly high at INR 74.17, and monthly trading ended at INR 74.11.

## 2. Outlook for This Month

**In November, the U.S. dollar/Indian rupee exchange rate is forecast not to move significantly.**

Domestic factors in India remain unchanged. In October, there was a net buy of USD 2.7 billion in total from foreign investors in the Indian stock market. Furthermore, the bond market, from which funds were previously flowing out for a while, started to see funds coming back, as the central bank of India announced its decision to buy bonds as an open-market operation. As a result, in October, there was a net buy of approximately USD 400 million from foreign investors in the Indian bond market. Thus, there was fund inflow both into the stock and bond markets. In terms of direct investment, a major retail company in India has obtained investment worth more than JPY 150 billion, as was mentioned above. Thus, in the real money market, there has been active Indian rupee-buying and U.S. dollar-selling. On the other hand, foreign currency reserves in India had reached USD 13 billion by the week of October 16 compared to the last week of September. This means that the Indian monetary authorities bought the U.S. dollar more than enough to offset all of the above-mentioned inflows of overseas funds.

According to market consensus, the U.S. dollar/Indian rupee exchange is not likely to fall below the INR 73.00 level, as there will be interventions based on U.S. dollar-buying by the Indian monetary authorities. However, many see that it is likely for market participants to sell the U.S. dollar along with vigorous foreign capital inflow when the exchange rate reaches the INR 74.00 level and above. In the end, the U.S. dollar/Indian rupee exchange rate is expected to fluctuate within a range between INR 73 and INR 74.

It should however also be mentioned that the capital inflow into the Indian stock market is based on the assumption that the number of Covid-19 cases in India will decrease in the times ahead. The number of Covid-19 cases has been particularly high in Mumbai, India's financial center, while the situation of air pollution has been at the worst level ever in Delhi, the capital city. Given such conditions, it is uncertain if the number of cases will decrease soon. It is possible for India to follow the examples in Europe and the U.S., where there has been downward pressure on the stock market due to concerns over economic decline as a result of the expanding second wave of the Covid-19 crisis.

Even though the U.S. dollar/Indian rupee exchange rate is most likely to continue fluctuating at the current level, there are risks for the exchange rate to rise in the times ahead given the risk scenario in which Covid-19 cases will increase further.

This report was prepared based on economic data as of November 2, 2020.