Mizuho Dealer's Eye

February 2021

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U.S. Dollar – February 2021

Expected Ranges **Against the yen: JPY102.50–106.00**

1. Review of the Previous Month

The dollar/yen pair continued to trade in a range around 103 yen in January.

The pair opened the week trading at the lower-103 yen mark. The yen was then bought on risk aversion on reports that the Japanese prime minister was looking into declaring a state of emergency before the week's end in order to tackle Covid-19, so the pair tumbled to the upper-102 yen level. The greenback was then bought back as the NY Dow Jones fell, so the pair returned to the lower-103 yen mark. On January 5, OPEC Plus reached an agreement to keep crude oil output levels more-or-less unchanged. However, with Saudi Arabia announcing it would unilaterally cut output, risk appetite grew and the dollar was sold, with the pair sliding to the upper-102 yen level. With the Democrats then winning the Senate elections in the state of Georgia, speculation grew about treasury issuances as the Biden administration moved to implement its economic policy pledges, with US interest rates and the greenback subsequently climbing. The Senate victory meant the US now had a 'triple blue' government, with the Democrats controlling the presidency and both houses of Congress. As speculation grew about the introduction of a large-scale fiscal package, US long-term interest rates rose, with the yen weakening and the currency pair hitting 103.95 yen.

With Japan on holiday over January 11, the pair climbed to a weekly high of 104.40 yen on the firm movements of US interest rates. Buying then prevailed during New York trading time as investors awaited the results of an auction of 10-year US treasuries. US long-term interest rates had risen to the 1.18% range, but they now crashed to the 1.13% range. With copper, crude oil and other commodity prices also rising, the greenback weakened and the currency pair fell to the 103 yen range. US interest rates climbed again and the pair strengthened to the lower-104 yen mark on January 14 as expectations grew that the incoming Biden administration would roll out a substantial new economic relief package. During New York trading time, US long-term interest rates fell and the pair dropped to the mid-103 yen level on concerns about dovish comments by FRB chair Jerome Powell.

The pair moved flatly in the final week in the run up to the FOMC meeting. Before the meeting, Klaas Knot, ECB Governing Council member and the president of the Dutch central bank, commented that central bank deposit rates could be cut further if necessary to stop the euro from rising, with the greenback subsequently bought. The dollar/yen pair returned to the 104 yen level for a time. As expected, the FOMC kept policy unchanged when it met on January 27. The FOMC's statement contained no substantial changes either, so the impact on the currency pair was muted. However, the greenback was bought and the pair rose to the lower-104 yen mark toward the latter half of the week as stock markets suffered sharp losses. Risk-evasive dollar buying continued thereafter. The US then released some mixed economic indicators, including the 4Q GDP data and the Core PCE figure, though the pair still climbed to hit the mid-104 yen mark.

2. Outlook for This Month

The dollar/yen pair will continue to trade in a range in February.

The US now has a 'triple blue' government, with the Democrats controlling the presidency and both houses of Congress. Under these circumstances, the economic outlook is improving on hopes for significant fiscal mobilization on a new economic relief package planned by the Biden administration. As a result, US interest rates have edged up, with the pair likely to be swayed by both concerns about the spread of Covid-19 and vaccine administration and the buoyant impact of economic measures.

FRB chair Jerome Powell struck a dovish tone in the press conference after the FOMC meeting on January 27. He said it was too early to think about an exit strategy, for example, and he voiced ongoing concerns about the impact of Covid-19. When it came to tapering, Mr. Powell also said the FRB would work hard to communicate clearly with regards to any news that could catch the markets off guard, so it seems the FRB is determined to avoid any volatile sharp rises on a taper tantrum. The last taper tantrum occurred when interest rates rocketed after then-FRB Chair Ben Bernanke hinted that quantitative easing would be tapered in stages in the near future. The episode left bad memories, with the turmoil also spreading to emerging markets and then leading to an economic slowdown in the US. This year marks the final year of Mr. Powell's term, so he will want to avoid inadvertently inflicting any more damage on an economy already hit by Covid-19. Under these circumstances, it seems interest rates will only rise at a very slow pace as easing continues.

However, Covid-19 continues to inflict severe damage on the global economy, with the number of global cases topping 100 million, for example. On January 25, President Biden said he expected vaccines to be offered to anyone who wanted one by spring, but the vaccines need two doses, so we may have to wait until next year before the vaccination process is completed.

As a result, the dollar/yen pair will continue jostling up and down in a range at the start of the year. If the Covid-19 situation remains essentially the same in February too, the pair is unlikely to diverge sharply from its range around 103‑105 yen. As such, the pair is expected to continue moving flatly.

Dealers' Market Forecast

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

Bullish on the dollar	11 bulls	103.00 – 106.00	Bearish on the dollar	9 bears	103.00 – 105.50

* Ranges are central values

Tanaka	Bull	106.00 – 103.00	As Covid-19 remains rampant, the US has continued to offer monetary and fiscal support. However, the ECB has moved to rein in euro bullishness and the People's Bank of China is in tightening mode. This gap between the stances of the central banks is starting to have a negative influence, as is market turmoil caused by the movements of retail investors. The dollar could be bought back on instability, so caution will be needed.
Takeuchi	Bull	106.00 – 102.00	It is hard to imagine the dollar falling excessively given hopes for fiscal mobilization by US President Biden and expectations for an improved global economic outlook. However, there remains a structural surplus of dollars, so the dollar/yen pair will trade with a heavy topside. The pair will probably trade in a range, with its lower price gradually edging upwards.
Tsutsui	Bull	106.00 – 103.00	The treasury secretary Janet Yellen has dismissed the Trump administration's weak-dollar policy on several occasions. Interest rates also look set to climb in US financial markets as investors price in tapering. The dollar/yen pair will probably rise amid a climate of dollar bearishness, helped also in part by real demand for investment into the US.
Kato	Bull	106.00 – 103.00	Exporters will probably sell the greenback close to 105 yen. However, it is getting harder to describe Japan as a nation with a trade surplus. If the euro's attractiveness during phases of risk appetite wanes, this could see the dollar/yen pair returning to a range between 105–110 yen.
Yamagishi	Bear	105.50 – 103.00	When it met in January, the FOMC talked about the severe impact of Covid-19 on employment and the wider economy. It also indicated that it would continue easing. As such, the greenback will probably remain bearish. However, hopes are slowly growing about the roll-out of vaccines and the normalization of US economic activity, with long-term interest rates becoming entrenched in the 1% range, so the dollar/yen pair's room on the downside will be capped.
Ushijima	Bull	106.00 – 103.00	It seems the dollar/yen pair's downside has grown stronger from 103 yen following the meeting between the Japanese Finance Ministry, Financial Services Agency and the Bank of Japan early January. Fiscal mobilization by the new Biden administration will probably push US interest rates higher, with the dollar also bought back. However, there are many offers lined up at the upper-105 yen mark, so the speed of the pair's appreciation will be muted.
Tasaka	Bull	105.00 – 103.00	The dollar/yen pair will be supported by hopes regarding substantial fiscal mobilization by the new Biden administration and a vaccine roll-out. However, there are no particular signs of improvement in the real economy and it is hard to see US interest rates rising further, so the pair's room on the topside will be limited.
Omi	Bear	105.00 – 102.00	The trend of dollar selling looks set to continue. This comes on the back of the ongoing policy of low interest rates, hopes toward a new fiscal package, and expectations about the policies of the Biden administration, for example. However, the Covid-19 situation remains up in the air and stocks have tumbled, so the greenback will be bought on risk aversion, with the dollar/yen pair's slide likely to be gentle in nature.
Ueno	Bull	106.00 – 103.00	Risk assets have risen on excess liquidity, but they will probably move flatly from here on. Risk-on dollar buying will also ease. The focus of the markets will probably shift to fiscal mobilization by new President Biden. If fiscal mobilization seems more likely, the greenback might be pulled higher by US interest rates.
Yamaguchi	Bear	105.50 – 103.00	Despite hopes about vaccines, the number of global Covid-19 cases and hospitalizations continues to grow. The US economy is unlikely to undergo a full-on recovery right now, with the FOMC likely to remain in easing mode. With the end of the fiscal year approaching, the dollar/yen pair will continue to trade with a heavy topside.
Kai	Bear	105.00 – 103.00	With Covid-19 still raging, US interest rates will only have limited room to climb. As such, it will take some time before we see US rates and the dollar/yen pair undergoing a fully-fledged rise.
Onozaki	Bull	106.00 –	US interest rates have risen on hopes regarding the new Biden administration. The greenback will also be pulled higher for a time. However, the dollar/yen pair's topside will be held down by the ongoing Covid-19 crisis.

		103.00	
Tamai	Bear	105.00 – 103.00	US interest rates have climbed on hopes for US economic measures, but the Republicans will probably oppose any substantial economic package. As the negotiations drag on, uncertainty will probably flood the markets. The FRB also remains in easing mode, so the dollar/yen pair looks set to continue trading in a range with a heavy topside.
Harada	Bear	106.00 – 102.50	The dollar/yen pair is expected to continue moving in a range. President Biden looks set to implement a large package of fiscal mobilization, with the outlook for the economy improving as a result. However, Covid-19 remains rampant, so the pair will probably move flatly while jostling up and down.
Oba	Bull	106.00 – 103.50	The foreign exchange markets reached a turning point entering 2021. The dollar/yen pair has rallied to 104 yen on the back of rising US 10-year interest rates. If the ceiling of the 'cloud' in the daily Ichimoku Kinko Hyo trading chart steadily edges higher, the lower-104 mark will probably become the pair's support line. The Covid-19 crisis is probably at its peak in the northern hemisphere right now.
Katoono	Bear	105.50 – 102.50	There are a large number of comparatively positive factors, such as a new economic stimulus package in the US and the roll-out of vaccines. Nonetheless, the greenback will continue to be sold on concerns about prolonged low US interest rates and the US fiscal deficit.
Kobayashi	Bear	105.50 – 102.00	The dollar was bought against the euro following verbal interventions by ECB officials to curb the euro's rise, with the dollar/yen pair also recovering to the 104 yen range as a result. However, the pair will be weighed down by the prolongation of easing and the lack of improvement when it comes to the Covid-19 situation. As such, investors will find it hard to actively buy the dollar.
Henmi	Bull	106.00 – 103.00	The greenback faces deep-rooted downward pressure from excess dollar liquidity. However, US interest rates are moving firmly on expectations for a US economic recovery on the economic policies of the new Biden administration. The dollar/yen pair is expected to move firmly in February.
Otani	Bear	105.50 – 103.00	US long-term interest rates have climbed into the 1% range, but this upwards momentum has eased off. FRB chair Jerome Powell has also ruled out any tapering in the near future, so with the FRB remaining in easing mode, it seems the dollar/yen pair will continue to trade with a heavy topside.
Okuma	Bull	106.00 – 103.00	US economic indicators are showing signs of improvement, with hopes also growing for fiscal mobilization by the new Biden administration. Also, with Covid-19 still raging, the greenback will remain susceptible to buying as a safe currency. As such, the dollar/yen pair is expected to move firmly.

Michiyoshi Kato, Global FI Team, Global Markets Trading Department

Euro – February 2021

Expected Ranges **Against the US$: US$1.1800–1.2200**
Against the yen: JPY124.00–127.00

1. Review of the Previous Month

The dollar underwent a one-sided slide at the end of 2020 as risk appetite grew, mainly as a result of rising US yields. This trend underwent a sharp adjustment in January.

After opening the year trading at the mid-$1.22 mark, the euro/dollar pair had its topside tested on rising crude oil prices and violent demonstrations in Washington. The pair hit a monthly high of $1.2349 on January 6, but US interest rates then rose sharply. Speculators had built up a considerable amount of euro-long/dollar-short positions, but these positions were now unwound rapidly.

The pair slumped to the lower-$1.21 level at the start of the second week. However, US yields then fell on the back of an auction of 10-year US treasuries, so the pair rallied to the $1.22 range for a time. The minority party of former prime minister Matteo Renzi then announced it was pulling out of Italy's coalition government, with several ministers also resigning. The markets reacted badly to this news and the pair was pushed back to the $1.21 range. US interest rates then fell, though, while FRB chair Jerome Powell said the time was not ripe to discuss an exit from the FRB's extremely accommodative monetary policies. It seemed like Mr. Powell was seeking to calm the situation before his meeting with Joe Biden the following week. However, investors then moved to liquidate their dollar short positions on news about a $2 trillion economic package by the new Biden administration, so the euro/dollar pair dipped below $1.21 toward the third week.

With trading thin on the ground during a holiday in NY, the pair hit a low of $1.2054. The greenback was then sold for a time following the confirmation hearing of former FRB chair Janet Yellen, so the pair rallied to the $1.21 range. As expected, the ECB Governing Council kept policy unchanged when it met, but ECB president Christine Lagarde commented that the risk of a downswing in the economic outlook had receded, so the currency pair moved toward the fourth week trading at the upper-$1.21 level.

In the fourth week, the German government sharply downgraded its GDP forecast on January 27, from 4.4% in October to 3%. Klaas Knot, the president of the Dutch central bank, also said that ECB rates had not hit bottom and there was still room for further cuts. This was seen as a verbal intervention to curb the euro's rise, with the euro sold as a result. As a result, the euro/dollar pair was sold to $1.2058, close to a recent low. US stock markets rose on January 28 on moves to curb volatility due to speculator activity. The dollar was sold and the euro bought on risk appetite, so the pair broke through the mid-$1.21 level to trade around $1.1200.

2. Outlook for This Month

The long positions that had built up on risk-on dollar selling underwent some adjustment from the turn of the year. This trend will probably continue in February too.

The eurozone Harmonised Index of Consumer Prices (HICP) was released on January 20. It was unchanged on the preliminary data at -0.3%. This marked the fifth straight month in negative territories and the first time a minus

result had been recorded in January too. This sluggish data is mainly due to a slump in crude oil prices, but inflationary expectations have also undergone an unprecedently-long decline, with all this only adding to the bearish trends that had prevailed even before Covid-19 struck.

The eurozone has the world's largest current account surplus, a phenomenon supported by a healthy trade surplus. German domestic output remains robust, for example, with the country still a hub for exports and production. As such, it seems only natural that the euro is bought when the greenback is sold during phases of risk appetite. However, this situation is also conducive to an accumulation of speculative euro long positions.

At the same time, a yellow warning light seems to be flashing on the inflationary front. If the preliminary HICP data remains in negative territories on its release on February 3, this will mark an unprecedented slump and it will have a major impact on 2021 as a whole. Mining and industrial goods have also joined crude oil prices in making a negative contribution to the CPI data, while the cost of services, food, alcohol and tobacco also remains in the doldrums. This will naturally lead to concerns about falling wages and this could have a negative impact on the eurozone economy.

As usual, ECB president Christine Lagarde intervened verbally to restrain the euro's rise in her press conference after the ECB Governing Council meeting. She said that although the ECB had no targets for exchange rates, it was monitoring these rates very carefully because of the major impact they can have on the economy via prices. With US real interest rates starting to show signs of bottoming out, investors may respond to this call, with the trend of euro bullishness potentially peaking out. A glance at US yields also suggests the environment is shifting. If vaccines start to prove effective in curbing the spread of Covid-19, then US yields might recover slightly, with the euro/dollar pair also facing some adjustment as a result.

Dealers' Market Forecast

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

Bullish on the euro	6 bulls	1.2000 – 1.2300	Bearish on the euro	14 bears	1.2200 – 1.1900

* Ranges are central values

Tanaka	Bull	1.2300 – 1.1900	The euro faces several negative factors, including interventions to curb euro bullishness, political uncertainty in Italy, Covid-19 lockdowns and the economic impact of these lockdowns. Investors should be on guard against dollar buy-backs, but the euro/dollar pair will move firmly on sustained support on the supply and demand front.
Takeuchi	Bull	1.2300 – 1.2000	There is a structural dollar surplus, with the euro/dollar pair set to remain bullish for now on supply and demand conditions. There will some adjustments to accumulated euro long positions, but the pair's bottom price will grow firmer. Investors have broadly priced in the negative impact of Covid-19 on the European economy, so provided no new negative factors emerge, the pandemic is unlikely to push the currency pair down lower.
Tsutsui	Bull	1.2400 – 1.1950	The euro/dollar pair's movements will be swayed by supply and demand trends. These point to euro bullishness right now. The dollar will stop falling and begin climbing gently in February, so the currency pair might break slightly above its January range this month.
Kato	Bear	1.2200 – 1.1800	The eurozone's current account surplus has been supported by a trade surplus, but Covid-19 will start to impact the latter. Consumer prices have also undergone an unprecedented slump. This will probably impact wages, with euro buying peaking out as a result.
Yamagishi	Bear	1.2300 – 1.1900	The forecast for eurozone GDP in 2021 was downgraded in the IMF's recent outlook, with business confidence also deteriorating. As this shows, Covid-19 is starting to have a bigger impact on economic activity. The euro/dollar pair has trended upwards for around a year, but this trend will probably slow on Italian political instability and interventions by the authorities to curb the euro's rise.
Ushijima	Bear	1.2200 – 1.2000	ECB officials have dropped hints about rate cuts while also intervening verbally to curb the euro's rise. At the same time, the FRB has talked about tapering within the year. The euro/dollar pair looks set to continue trading bearishly on this discrepancy in monetary policies.
Tasaka	Bear	1.2200 – 1.1900	The European economy has been hit hard by the deepening Covid-19 crisis. ECB officials have also hinted at rate cuts while also making verbal interventions to curb the euro's rise. This suggests the trend of euro bullishness will ease, with the euro/dollar pair undergoing a gentle slide.
Omi	Bull	1.2300 – 1.2000	The euro will remain firm this month. This will be due to ongoing dollar selling and shrinking US/European interest-rate differentials. One risk is a potential cut in policy rates. The president of the Dutch central bank said last month that there was room for rate cuts, with euro/dollar pair subsequently moving bearishly.
Ueno	Bear	1.2300 – 1.1900	Amid a surplus of dollars, the euro will be bought on a lack of alternatives, with demand remaining high on the real-demand front. As the euro/dollar pair starts to level out, investors could unwind their euro long positions on the Covid-19 outbreak and lockdowns in Europe as well as verbal interventions by the authorities to curb the euro's rise.
Yamaguchi	Bear	1.2250 – 1.2000	The World Bank and IMF have downgraded their EU growth forecast for 2021, with the economy continuing to be pushed down by Covid-19. Some ECB officials have made verbal interventions to curb the euro's rise, while others have hinted at further rate cuts, so the euro will probably move bearishly this month.
Kai	Bull	1.2300 – 1.2000	Though some ECB officials intervened verbally to curb the euro's rise at the end of 2020, the euro/dollar pair still renewed highs, with the pair set to remain bullish until the trend of dollar bearishness eases off.
Onozaki	Bull	1.2300 – 1.2000	The euro has remained strong despite comments by ECB officials aimed at curbing the currency's rise. Given the surplus of dollars, it seems the environment will remain relatively conducive to euro buying.
Tamai	Bear	1.2200 – 1.1900	Many European nations have extended lockdowns to tackle Covid-19, with the eurozone recovery seemingly lagging behind that of the US. With ECB officials also hinting at rate cuts, the euro/dollar pair looks set to move with a heavy topside this month.
Harada	Bear	1.2300 –	Dollar selling has eased now US interest rates have risen to the 1% range. With concerns about new Covid-19 strains also smoldering away, the euro will be a hard currency to buy, so the euro/dollar pair will probably move

		1.2000	with a lack of direction this month.
Oba	Bear	1.2250 – 1.2000	Klaas Knot, the president of the Dutch central bank, has intervened verbally to curb the euro's rise. With several other ECB officials also hinting that the markets have underestimated the likelihood of rate cuts, it seems the euro will be a hard currency to buy this month. Perhaps the euro/dollar pair peaked out at its early-2021 highs.
Katoono	Bear	1.2200 – 1.1850	There are concerns about the economic impact of prolonged lockdowns. Furthermore, though the ECB has kept monetary policy unchanged, there is a sense it will ease further going forward. As such, it seems the euro will move bearishly this month.
Kobayashi	Bear	1.2300 – 1.1900	Klaas Knot, ECB Governing Council member and the president of the Dutch central bank, has made a verbal intervention to curb the euro's rise, so the euro/dollar pair's topside will probably be held down this month.Covid-19 also continues to rage, so investors will find it hard to actively buy the euro.
Henmi	Bear	1.2200 – 1.1800	The European economy is at risk of slowing, while several ECB officials have made comments aimed at curbing the euro's rise, so the euro will be a hard currency to buy this month. The dollar will also be susceptible to buying on hopes for a US economic recovery, so the euro/dollar pair will probably trade bearishly.
Otani	Bear	1.2200 – 1.2000	The euro/dollar pair looks set to trade with a heavy topside. The pair's topside will continue to be weighed down by prolonged lockdowns throughout Europe and political instability in Italy. ECB officials have also intervened verbally to curb the euro's rise, so the euro/dollar pair is expected to trade heavily this month.
Okuma	Bear	1.2200 – 1.2000	There are concerns about the impact of prolonged lockdowns in Europe's major countries, with expectations for economic normalization also wearing off. Italian political instability is also a worry, with the euro likely to be sold during phases of risk-off dollar buying, so the euro/dollar pair is expected to move bearishly this month.

Fumihiko Kanda, Europe Treasury Department

British Pound – February 2021

Expected Ranges	**Against the US$: US$1.3000–1.4000**
	Against the yen: JPY135.00–146.00

1. Review of the Previous Month

The GBP/USD pair rose in January.

With the greenback falling globally, on January 4 the pair temporarily hit a high of $1.3703 for the first time since 2018. However, the markets then reacted badly to news that the UK government would be making an announcement about Covid-19 during the evening, so sterling was sold and the pair moved erratically to drop below $1.36. With the UK entering its third lockdown, the pair moved in the $1.36 range with a slightly heavy topside on January 5. Investors tested its lows throughout the day, with the pair then returning to the $1.36 range during US trading time. It rose slightly to the upper-$1.36 mark on January 6, but the greenback was then bought back and the pair dropped back below $1.36 as US long-term interest rates climbed on news that the Democrats had won a Senate election in Georgia. The dollar was also bought on January 7, with the pair floating around $1.36 before finally dropping to the mid-$1.35 level. Dollar buying was unwound on January 8 and the pound was gradually bought back. With the greenback floating up and down after the release of the US employment data for December, the GBP/USD pair jostled around $1.36.

At the start of the next week, on January 11, the pair dipped to a monthly low of $1.3451 as the dollar strengthened on rising US long-term interest rates, though the pair then bounced back. The pair then soared to the upper-$1.36 level on January 12 after the Bank of England (BOE) governor Andrew Bailey said there were many problems with negative interest rates. It then floated around $1.37, though it then dropped below $1.36 as the greenback climbed toward the weekend.

With the US on holiday the following week, the pair moved with no sense of direction. The pound was then bought and the euro sold on January 20 as investors focused on vaccination rates. The currency pair broke slightly above its recent range, with investors then testing its topside from January 21.

The pair dropped to the lower-$1.36 mark for a time on January 26, but the markets then reacted well to the UK governments plans for self-quarantining and the UK's high rate of vaccinations, so the pair was bought back to the mid-$1.37 level. It hit a monthly high of $1.3759 on January 27. However, the euro was then sold after members of the ECB Governing Council commented on its exchange rate, with sterling also pulled along to temporarily dip below $1.37 against the greenback. The US 4Q data was released on January 28. The figure was slightly down on expectations, so the dollar weakened and the currency pair rallied to the $1.37 range at the end of the month.

2. Outlook for This Month

The GBP/USD pair is expected to move with a heavy topside in February. The focus will be on UK policy rates and the Covid-19 situation.

The BOE Monetary Policy Committee (MPC) will be meeting on February 4. Several MPC members spoke

about negative interest rates in January, but BOE governor Andrew Bailey has said such a move would be problematic, so the pound has moved firmly. Our London branch thinks the UK is unlikely to introduce negative interest rates within 2021, with any policy rate shifts unlikely at this month's meeting too. However, some observers believe that the MPC will cut rates by 0.1% to bring interest rates to zero, so there is a risk the pound could move erratically. In November last year, the BOE expanded its asset purchasing program in tandem with government moves to boost economic support. The BOE may also respond to moves by the government last month to boost corporate subsidies in the wake of the new lockdown, but this is unlikely to impact the foreign exchange markets much.

The dollar will continue to rise and the pound fall when Covid-19 risk rises. However, currencies have recently started to react to news about Covid-19 vaccination rates. Several reports suggest the UK had vaccinated over 10% of its population by January 28, higher than the US's figure of around 7% and far better than Europe's figure of less than 5%.As such, sterling continues to perform better than the euro. Of course, this factor will disappear if all countries make progress when it comes to vaccinations, so there are doubts about how long the pound will remain attractive.

After Brexit and the start of a provisional FTA, there has been no major logistical hiccups. However, some services have been halted and there are talks about unavoidable customs procedures and so on, with the burden on companies steadily increasing. With Covid-19 also proving a headwind, UK automobile production in 2020 fell to its lowest level in 36 years. Though the January Manufacturing PMI remained above the key 50 mark, it had fallen compared to December, though this may be due in part to the impact on the third lockdown. Nonetheless, this could impact the UK's hard data and the BOE's policies going forward, so caution will be needed.

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

Australian Dollar – February 2021

Expected Ranges **Against the US$: US$0.7520–0.7820**
Against the yen: JPY78.85–81.10

1. Review of the Previous Month

The AUD/USD pair was broadly swayed by hopes for a new US economic stimulus package and rising US interest rates in January from the start of the year until January 27. During this time, it jostled up and down in a range from $0.7643 to $0.7820.

The pair kicked off the month trading at the lower-$0.77 mark on January 4. On January 6, the Democrats won the two Senate seats up for grabs in Georgia, so hopes for a large stimulus package grew and US stocks hit record highs, with the currency pair also rising to $0.7820. US 10-year treasury yields then hit the 1% range, though the greenback was not bought as a result. As US interest rates continued climbing on January 7, the greenback was finally bought back, so the pair edged lower. The US employment data for December was released on January 8. The nonfarm payrolls data had deteriorated sharply, with US interest rates rising further on expectations for new relief measures. The US dollar was bought and the currency pair weakened to the mid-$0.77 level.

With a speech by FRB chair Jerome Powell looming on January 14, the greenback was sold on expectations for dovish comments by Mr. Powell, so the pair temporarily hit the $0.78 range.

China released its (year-on-year) retail sales figure for December and its (quarter-on-quarter) 4Q GDP data on January 18, with both indicators down on previous results and on market expectations. The RMB had continued to strengthen entering 2021, but it now dropped back to RMB 6.5 against the dollar for a time, with the Australian dollar also pulled lower. With the confirmation hearing of former FRB chair Janet Yellen looming on January 19, stocks rose and the greenback was sold on risk appetite on expectations that the FRB would take a more robust stance when it came to policies to support economic regeneration. On January 20, the AUD/USD pair soared from the upper-$0.76 mark to the upper-$0.77 level. US stocks then hit record highs in the run up to Joe Biden's US presidential inauguration on hopes regarding some new US economic stimulus measures. The Australian employment data for December was released on January 21. The unemployment rate had improved by more than expected, but the number of full-time jobs had grown at a slower pace than the previous month, so the data did not provide further impetus to the Australian dollar.

Australia then released some better-than-expected 4Q CPI data on January 27, so the currency pair rose by around 10 pips to hit the upper-$0.77 level. Investors then moved to lock-in profits, though, while the greenback was also bought on risk aversion, a trend that had begun the previous evening, so the pair then fell to the lower-$0.77 level. As stocks fell further during NY trading time, the pair tumbled to $0.7644. The results of the FOMC meeting were released during the early morning of January 28, Sydney trading time. The FOMC had kept policy fixed, with the accompanying statement also leaving the scale of bond purchases unchanged. However, FRB chair Jerome Powell said in the subsequent press conference that it was too early to talk about tapering. He also said it would likely "take some time for substantial further progress to be achieved." These comments poured cold water

on hopes for a reduction in bond purchases. US 10-year treasury yields fell to around 1%, but as risk aversion continued, the Australian dollar weakened throughout the day, with the pair breaking into the $0.75 range.

2. Outlook for This Month

The AUD/USD pair's topside seems to have grown heavier recently stock profit-taking, rising US interest rates, and risk-evasive dollar buying.

Australia has seen a relatively large number of positive headlines, with domestic economic data moving firmly, for example. The unemployment rate improved to 6.8% in the Australian December employment data, while Australian economic sentiments have also rose for four straight months, with numerous indicators pointing to an economic recovery. Covid-19 cases in Australian cities have also fallen to very low levels. The Australian government estimated that there were 78 cases as of January 31, 2021, with just seven new cases recorded per day. Covid-19 restrictions are being eased, with New South Wales (NSW) no longer requiring people to wear masks when they enter shopping malls or other stores from January 29, for example. Queensland will also be opening its borders with NSW from February 1, with people no longer required to self-isolate when crossing the state border. Given this improved situation, there are hopes that the Australian economy will recover early on a relaxation of rules and the distribution of Covid-19 vaccines. However, the AUD/USD pair is growing slightly less sensitive to positive news or indicators emanating from Australia. Instead, it seems the market focus is shifting to the direction of FRB monetary policy and new stimulus measures by the Biden administration.

In his press conference after the recent FOMC meeting, FRB chair Jerome Powell said it was too early to talk about tapering and that it would likely "take some time for substantial further progress to be achieved," with market expectations for tapering subsequently waning. As such, though US interest rates fell, the greenback was bought back on risk aversion as the markets reacted instead to the negative news that it would apparently take a long time before an exit strategy was pursued. As this trend continued, the currency pair dropped below the $0.76 range to hit its lowest point since the turn of the year. When the pair hit the $0.78 range last month, it topside was held down at a psychological barrier around $0.7820, with the pair perhaps growing more susceptible to downswings. In this sense, the pair's range since the turn of the year may grow wider on the downside in February. The first event to watch out for will be the first RBA board meeting of the year on February 2. Investors should monitor the contents of the accompanying statement and the reaction of the currency pair.

Reiko Kanemoto, Canada Office, Americas Treasury Department

Canadian Dollar – February 2021

Expected Ranges **Against the US$: C$1.2500–1.3200**
Against the yen: JPY77.00–85.00

1. Review of the Previous Month

The USD/CAD pair opened January trading at C$1.2733. It hit a monthly low of C$1.2590 on January 21 and a monthly high of C$1.2881 on January 28.

US and Canadian stocks fell on January 4. This came amid selling for profit taking before the Senate votes in the US state of Georgia, while several nations also introduced new restrictions in the face of surging Covid-19 cases. As crude oil prices (WTI) fell, the pair rose to around C$1.28. On January 5, Saudi Arabia announced it would voluntarily cuts its crude oil output by 1 million barrels a day over February and March, so WTI rallied sharply. Prices topped $50/barrel for the first time since February 2020, with the USD/CAD pair temporarily falling to C$1.2658. The Canadian employment data for December was released on January 8. The number of people in work was down 62,600 on the previous month. This was the first fall since April 2020 and it was also worse than market expectations for a dip in the region of 37,500. The unemployment rate was also up 0.1% on the previous month to hit 8.6% for the first time in seven months.

US and Canadian stocks fell on January 11 on uncertainty about the direction of Covid-19 and concerns about market overheating. After rising continuously, WTI prices now slowed and the currency pair hit C$1.2835. With US crude oil inventories decreasing by more than expected, WTI prices started climbing again from January 12, with the pair sliding as WTI continued trading around $53/barrel. The pair fell below C$1.265 on January 14 after FRB chair Jerome Powell hinted there would be no rate hikes in the near future. Several bearish US economic indicators were released on the morning of January 15. With concerns also growing about a renewed Covid-19 outbreak in China, WTI fell back and the USD/CAD pair rose to C$1.2765.

Risk appetite grew and the pair temporarily dipped to C$1.2608 on January 20 as Joe Biden's inauguration was greeted by hopes for an economic upswing on some new stimulus measures. The Bank of Canada (BOC)'s Monetary Policy Committee kept policy rates fixed when it met on the same day. The accompanying statement forecast that GDP would hit -2.9% in the first quarter, though it gave a more optimistic outlook for the medium term, saying that economic growth would return to pre-pandemic levels by the end of 2021 as vaccines were rolled out and demand rallied in Canada and across the globe. The statement also said inflation would remain low and would not hit the 2.0% target until 2023. This trend spilled over into January 21 and risk appetite prevailed. During the morning, BOC governor Tiff Macklem said enough stimulus was in place to support the domestic economy, with no new easing measures needed for the time being. As a result, the currency pair hit C$1.2590, its highest level since April 2018. However, as the Covid-19 situation worsened across the world, concerns grew about the demand recovery, with WTI prices sliding. As such, the pair bounced back to the lower-C$1.27 mark on January 22.

The FOMC kept its policy rates fixed when it met on January 27, with its statement also containing no major changes. The USD/CAD pair moved in the lower-C$1.28 range. The Canadian November GDP data was then

released on the morning on January 29. The data was up on the previous month and on market expectations, so the Canadian dollar was bought, with the pair continuing to trade at the upper-C$1.27 level as of 11am on January 29.

2. Outlook for This Month

The USD/CAD pair is broadly expected to move in a range from C$1.26–1.29 in February.

Ontario issued a stay-at-home order on January 14, with Canada facing more restrictions on economic activity. Though each state differs in terms of Covid-19 cases, the December retail sales figure, the January employment data and other Canadian economic indicators released in February will probably contract or move at lows. Some observers say the vaccine roll-out has been delayed, but if a structure is put in place soon and vaccines are steadily implemented, then domestic economic growth could recover to pre-pandemic levels by the end of 2021.

The BOC's 4Q Business Outlook Survey was released in January. It revealed that many firms were expecting sales to recover over the next year, with companies also saying they would boost investment and employment in expectation of a demand recovery. The poll was undertaken from mid-November to the start of December, before some states implemented stiffer restrictions, but the result was positive overall on hopes for the roll-out of vaccines and government support. The January Monetary Policy Report also predicted that domestic economic growth would hit +4.0% in 2021, +4.8% in 2022 and +2.5% in 2023. It also predicted that policy rates would not be lifted until 2023, when inflation was expected to recover to the 2.0% target. In a press conference after the BOC's meeting in January, BOC governor Tiff Macklem said that was still some room for small rate cuts if the economic outlook deteriorated sharply. He also hinted that the strength of the Canadian dollar could pose a risk to the domestic economy, so if the unit rises further, the BOC might react by cutting rates slightly, for example.

With the markets swinging between risk aversion and risk appetite on the Covid-19 situation, it seems WTI prices will continue trading around $40–50/barrel. Crude oil prices will rise at times on hopes for an economic recovery and coordinated production cuts, though they will move heavily on the topside overall on concerns about flagging demand. Various countries will undergo economic recoveries in the medium term, though, so WTI prices are unlikely to collapse, with the USD/CAD pair also set to continue trading below C$1.30. Furthermore, the BOC will probably maintain its current pace of quantitative easing. This is another reason why the currency pair will broadly move between C$1.26–1.29.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – February 2021

Expected Ranges **Against the US$: KRW 1,080–1,130**
Against the yen: JPY 9.009–9.524 (KRW100)
(KRW 10.500–11.100)

1. Review of the Previous Month

The USD/KRW pair rose in January.

After opening the month trading at KRW1087.5 on January 4, the pair then dropped to a monthly low of KRW1080.3 after the USD/RMB pair fell sharply below the key RMB6.5 mark. However, the greenback was bought on a slight mood of risk aversion ahead of the Senate election in Georgia. The Democrats ended up winning both seats in Georgia, so speculation grew about large-scale fiscal spending and an economic recovery, with the dollar also boosted by rising US interest rates. Concerns about political instability in the US eased during overseas trading time on January 7 after President Trump promised a smooth handover. As market sentiments improved, overseas investors bought South Korean stocks, so the USD/KRW pair fell to around KRW1090.

The pair opened the second week trading at KRW1093.5 on rising US interest rates. With overseas investors selling South Korean stocks, the pair then rose to KRW1101.0. However, there was some real-demand won buying when the pair topped the key KRW1100 level, so the pair dropped back. Overseas investors sold South Korean stocks towards January 13, while the dollar was bought on rising US interest rates. Nonetheless, the pair's topside continued to be weighed down by real-demand won buying when the pair topped KRW1100. In a speech on January 14, FRB chair Jerome Powell said the US was a long way off full employment, with demand set to remain sluggish for a while. He also said it was too early to talk about tapering. However, US interest rates stopped sliding on concerns about swelling federal debt as a result of the $2 trillion economic relief package planned by the incoming Biden administration.

With Mr. Biden's presidential inauguration ceremony looming on January 20, the markets remained in wait-and-see mode for several days. At her confirmation hearing on January 19, treasury secretary Janet Yellen said the government would pay for large-scale fiscal spending using federal debt rather than tax increases, so the greenback was sold. With the won also being bought on real demand, the currency pair's movements were deadlocked. Joe Biden was inaugurated on January 20 and he kicked off his presidency by signing 15 presidential decrees. However, the pair's reaction was muted and it fluctuated gently around KRW1100.

The fourth week saw concerns about delayed vaccine roll-outs. The FOMC also lowered its economic forecast when it met on January 27. As risk aversion swept the markets, the pair climbed to KRW1121.5. It eventually rose by 26.7 won to close the month at KRW1118.8.

2. Outlook for This Month

The USD/KRW pair will move with a lack of direction in February.

There were three main reasons why the pair weakened from September to the end of December 2020: (1) amid excess dollar liquidity, the dollar was sold against the RMB and won as China and South Korea recovered relatively quickly from Covid-19; (2) South Korea's current account balance improved sharply as the semiconductor sector bounced back; and (3) overseas investors bought South Korean stocks.

As for (1), dollar bearishness has started to wane in 2021 on market concerns about tapering. With regards to (3), meanwhile, overseas investors are now selling for profit taking. All this seems to have pushed the currency pair higher.

Although the greenback has bounced back comprehensively from excessive dollar bearishness and although there are concerns about tapering, the dollar is unlikely to undergo a fully-fledged rise given concerns about the delayed roll-out of vaccines, the faster-than-expected spread of Covid-19 cases as a result of new strains, and slow progress when it comes to talks about a new relief package in the US. As a result, the USD/KRW pair is moving without a sense of direction. Also, the pair has moved in lockstep with the movements of the USD/RMB pair since the latter half of 2020, with the USD/RMB pair moving flatly overall entering January 2021.

As such, it seems the USD/KRW pair's rise in February will be due in large pair to factors on the won's side, such as the selling of South Korean stocks by overseas investors.

There will probably be some substantial won buying from February on the aforementioned reason (2), but (3) overseas investors continue to sell South Korean stocks and this will probably prove a selling factor for the won. Under these circumstances, the USD/KRW pair is expected to move with a lack of direction around KRW1100. If vaccine roll-out plans are delayed much more than expected, the greenback will be bought on risk aversion. This could also push the currency pair higher, so caution will be needed.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – February 2021

Expected Ranges **Against the US$: NT$27.70–28.50**
Against the yen: JPY3.68–3.72

1. Review of the Previous Month

In January, the USD/TWD pair broke through TWD28.000, with the Taiwan dollar hitting its highest level against the greenback for around 23-and-a-half years.

The pair opened the month trading at TWD28.250. Exporters had sold the US dollar in 2020 and this trend spilled over into January. With the RMB also rising against the greenback, the USD/TWD pair weakened. As overseas investors bought the Taiwan dollar on January 5, the pair edged lower to drop beneath TWD28.000. It fell to around TWD27.950 on January 6, but as US interest rates rose, the US Nasdaq Futures fell and Taiwanese stocks were also pulled lower, with the currency pair temporarily bouncing back to TWD28. Taiwanese stocks then rose to hit record highs, with the pair dropping below TWD27.950 for a time.

US interest rates climbed mid-January, but the pair moved in a range around TWD28.990 as exporters sold the US dollar. It continued to move at this level thereafter. The Taiwan Capitalization Weighted Stock Index hit a record high on January 13, though, so the Taiwan dollar strengthened and the pair temporarily hit TWD27.938. However, overseas investors then repatriated more funds on large dividend payments and so on, so the pair then moved in a range.

Exporters sold the greenback and overseas investors bought the Taiwan dollar late January, so the currency pair moved below TWD28.000, though the Taiwan dollar did not undergo a one-sided rise. The pair temporarily returned to TWD28 during trading time as the greenback was bought across the board on rising US interest rates. The Taiwan Capitalization Weighted Stock Index hit record highs around 16,000 points on January 21, with the USD/TWD pair moving close to TWD27.950. On January 22, the pair hit TWD27.940 for the first time in over a week, though it then moved back to around TWD27.980 as Taiwanese stocks moved bearishly. There were concerns about the pair's high prices, while Taiwan also recorded some new Covid-19 cases. Taiwanese stocks were sold and overseas investors sold the Taiwan dollar. This offset greenback selling by exporters at the month's end, so the pair moved in a range around TWD28.000.

2. Outlook for This Month

In February, the USD/TWD pair's movements will be marked by Taiwan-dollar bullishness.

The unit broke though TWD28.000 in January to record its highest level against the greenback for around 23-and-a-half years. There was some adjustment in the latter half of the month, with stocks being sold and overseas investors selling the Taiwan dollar. This offset greenback selling by exporters, so Taiwan-dollar bullishness eased off.

At $345.276 billion, though, Taiwan's export amount in 2020 was up +4.9% on the previous year to hit a record high, with Taiwan's trade balance expanding. As such, demand for the Taiwan dollar is unlikely to evaporate. Export orders have hit record monthly amounts for four straight months now. The December figure was $60.55 billion, up

+38.3% year-on-year. This suggests the Taiwan dollar will continue to be bought going forward. The Chinese New Year holidays will also be taking place in February. If the Taiwan dollar faces strong buying pressure around the holidays, the unit could climb even higher against the greenback.

While monitoring stock movements, investors should watch to see how high the Taiwan dollar climbs this month.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – February 2021

Expected Ranges **Against the US$: HK$ 7.7500–7.7600**
Against the yen: JPY 13.25–13.55

1. Review of the Previous Month

Hong Kong dollar spot exchange market in January

In January, the U.S. dollar/Hong Kong dollar exchange rate once fell rapidly to HKD 7.7575, as reflation trading accelerated. However, the exchange rate returned to the HKD 7.7510 level thereafter and remained at that level. Also, in the runoff elections for the U.S. Senate, Democratic candidates won two seats against expectations, and this fueled hope for a large-scale fiscal stimulus measure of USD 1.9 trillion proposed by U.S. President Joe Biden, further accelerating the reflation trading. It should also be mentioned that market participants expected the Federal Reserve Board (FRB) to taper measures of quantitative easing soon, leading the 10-year U.S. government bond yield to exceed 1%, which is considered to be the psychological turning point. Following the rise of the U.S. interest rates, the Hong Kong dollar depreciated. However, FRB Chair Jerome Powell made a remark that it was not the right time to discuss exit strategy, denying the possibility for the FRB to start tapering measures of quantitative easing soon. Also, even though the interest rate differentials between the Hong Kong dollar and the U.S. dollar were maintained, capital inflow into the Hong Kong stock market remained robust, thanks to the Stock Connect scheme (a stock exchange scheme between the Mainland China and Hong Kong), and this prevented further depreciation of the Hong Kong dollar. Thereafter, the Hong Kong dollar started to rise. Since the beginning of this year, there has been capital inflow of more than HKD 250 billion into the Hong Kong stock market, and the benchmark Hang Seng Index once reached the 30,000 level, remaining at the highest level since April 2019. Furthermore, the media reported a large-scale IPO scheduled at the Hong Kong stock exchange, and this was another factor encouraging market participants to buy the Hong Kong dollar.

Hong Kong dollar interest rate market in January

In January, Hong Kong dollar interest rates fell, as demand for fund procurement at the end of the year peaked out, and the one-month Hong Kong dollar HIBOR and the three-month Hong Kong dollar HIBOR reached 0.10% and 0.24%, respectively. Last year, the Hong Kong Monetary Authority (HKMA) supplied a large amount of liquidity for active IPOs. As a consequence, the liquidity level of the Hong Kong dollar market remains high, and the aggregate balance of the HKMA remains at the highest level at HKD 457.5 billion. Short-term U.S. interest rates remained low despite the acceleration of reflation trading, and thus the interest rate differentials between the Hong Kong dollar HIBOR and the U.S. dollar LIBOR have narrowed.

2. Outlook for This Month

Hong Kong dollar spot exchange market in February

In February, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate within the range between HKD 7.75 and HKD 7.76. Demand for the Hong Kong dollar is increasing again for IPOs, while capital inflow

to the Hong Kong stock market remains robust through the Stock Connect Scheme, and this is likely to continue supporting the Hong Kong dollar market. It is improbable for the FRB to start discussing a plan to taper measures of quantitative easing before the situation of the Covid-19 pandemic improves. Thus, the Hong Kong dollar is not expected to depreciate significantly based on the rise of U.S. dollar interest rates. In other words, the main factor in the Hong Kong dollar market in the times ahead is not likely to be the carry trades motivated by the interest rate differentials between the Hong Kong dollar and the U.S. dollar but will be the capital flow related to IPOs and Hong Kong stocks. With regard to the relationship between the U.S. and China, U.S. President Joe Biden postponed a plan to lift monetary sanctions imposed on Chinese companies, maintaining a tough attitude toward China, as was the case with former U.S. President Donald Trump. Thus, if the frictions between the U.S. and China are unexpectedly intensified or if more sanctions are imposed on Hong Kong and Chinese authorities based on the *Hong Kong Autonomy Act*, there is persistent risk for concerns to grow regarding the stability of the Hong Kong monetary market. Furthermore, if borders are more open, more people would emigrate from Hong Kong, which could fuel concerns over human and capital outflow.

Hong Kong dollar interest rate market in February

While downside risks persist in the Hong Kong economy, the HKMA remains reluctant about absorbing liquidity in Hong Kong dollars by issuing Exchange Fund Bills and Notes (EFBNs). Therefore, the liquidity level in the Hong Kong dollar market is expected to remain high, keeping the Hong Kong dollar interest rates low. Furthermore, if the U.S. dollar/Hong Kong dollar spot exchange rate reaches the upper end of the U.S. dollar peg at HKD 7.75 again, as a result of increased capital demand for IPOs, the HKMA would be obliged to sell Hong Kong dollars in the market (to supply liquidity in Hong Kong dollars) in order to defend the U.S. dollar peg. On the other hand, there has so far been no sign of new sanctions from the U.S. or the emigration of Hong Kong residents, although there remains a risk for such events to cause capital outflow. Demand for the Hong Kong dollar is expected to increase, as there will be IPOs. However, the impact of this is likely to be only temporary. From a short-term perspective, there is only limited risk for the Hong Kong dollar interest rates to rise.

Toshifumi Fujiyama, Treasury Department, MHBK (China)

Chinese Yuan – February 2021

Expected Ranges **Against the US$: CNY 6.4000–6.6000**
Against the yen: JPY 14.85–16.41
Against 100 yen: CNY 6.1000–6.7400

1. Review of the Previous Month

In January, the U.S. dollar/Chinese yuan exchange rate fell significantly at the beginning of the month, after which the exchange rate continued fluctuating within a range between CNY 6.44 and CNY 6.49.

On January 4, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 6.51 level, after which market participants actively bought the Chinese yuan, and the exchange rate fell significantly to the CNY 6.45 level. On January 5, the exchange rate continued falling, temporarily reaching the CNY 6.42 level. However, the exchange rate returned to CNY 6.46 thereafter. During the nighttime of January 7, the media reported that the Democratic Party had achieved the so-called "triple blue" scenario—not only winning the presidential election but also winning the majority in both the Senate and the House of Representatives, and this encouraged market participants to continue buying the U.S. dollar. As a consequence, the U.S. dollar/Chinese yuan exchange rate also rose to the CNY 6.47 level.

On January 11, the U.S. dollar appreciated, as market participants had speculated that new U.S. President Joe Biden would take additional economic stimulus measures during the weekend, and the U.S. dollar/Chinese yuan exchange rate rose to the CNY 6.49 level. On January 12, the exchange rate started to fall, and on January 13, the fall of the exchange rate accelerated to reach the CNY 6.44 level. However, the U.S. dollar appreciated thereafter as a result of the rise of U.S. interest rates, which led the U.S. dollar/Chinese yuan exchange rate to the CNY 6.47 level.

On January 18, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 6.47 level. New U.S. Secretary of the Treasury Janet Yellen gave a warning against the depreciation of the U.S. dollar, and this led the U.S. dollar/Chinese yuan exchange rate to rise and temporarily reach the upper-CNY 6.49 level. On January 20, Joe Biden was inaugurated as the new U.S. President, and the ceremony ended uneventfully, as a result of which the U.S. dollar/Chinese yuan exchange rate fell to the CNY 6.45 level. Thereafter, the People's Bank of China (PBOC) central parity rate was set toward a weaker Chinese yuan, leading the U.S. dollar/Chinese yuan exchange rate to rise to the CNY 6.47 level.

On January 25, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 6.48 level. As long-term U.S. interest rates fell, the U.S. dollar/Chinese yuan exchange rate also fell to the CNY 6.45 level. On January 27, market participants dominantly bought the U.S. dollar, as U.S. stock prices fell. As a result, the U.S. dollar/Chinese yuan exchange market opened at the CNY 6.49 level on January 28. Toward the end of the month, the U.S. dollar/Chinese yuan pair has been trading at the CNY 6.46 level.

2. Outlook for This Month

In February, the U.S. dollar/Chinese yuan exchange rate is forecast to fluctuate within a narrow range without

rising significantly.

In the U.S., Joe Biden was inaugurated as the new U.S. president. However, there has been no change in America's tough attitude toward China. However, it is unlikely for the new U.S. President to carry out measures against China that are tougher than the current measures. Thus, it is difficult to expect the Chinese yuan to depreciate further. However, market participants should remain attentive, as there have been severer sanctions against Chinese companies in the U.S., and this could intensify the frictions between the U.S. and China, leading the Chinese yuan to depreciate.

In terms of monetary policy, the PBOC maintains a moderate monetary policy, and there is no plan to shift the current policy in the near future. In the U.S., some support the idea of starting to taper measures of monetary easing soon with the expected economic recovery, based on large-scale fiscal stimulus measures and the diffusion of Covid-19 vaccines. However, at a January meeting, the Federal Open Market Committee (FOMC) pointed to the weakness in employment statistics, emphasizing once more the importance of long-term monetary easing. The interest rate differentials between the U.S. and China are likely to continue supporting the Chinese yuan exchange market.

As the PBOC has been setting the central parity rate toward a weaker Chinese yuan, the Chinese yuan is forecast to continue appreciating gradually against the U.S. dollar. The Chinese New Year holiday will occur from February 11 to 17, and thus market participants should remain careful, as there could be a large gap in the U.S. dollar/Chinese yuan exchange market between before and after these holidays.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – February 2021

Expected Ranges **Against the US$: SG$ 1.3100–1.3400**
Against the yen: JPY 77.50–79.00

1. Review of the Previous Month

In January 2021, the Singapore dollar depreciated against the U.S. dollar.

At the beginning of the month, the Singapore dollar remained robust. The MSCI Emerging Market Currency Index reached a new high for the first time in approximately three years, thanks to expectations for detailed plans to diffuse Covid-19 vaccines, as well as for economic recovery. As a consequence, not only the Singapore dollar but also overall Asian currencies strengthened. On January 6, the Singapore dollar strengthened to bring the U.S. dollar/Singapore dollar exchange rate to the mid-SGD 1.31 level.

However, market participants dominantly bought the U.S. dollar thereafter, as U.S. interest rates started to rise. Following this trend, the trend of the Singapore dollar became inverted, and the Singapore dollar depreciated against the U.S. dollar. Long-term U.S. interest rates remained at the 1% level, and almost all the Asian currencies depreciated against the U.S. dollar. The Singapore dollar continued depreciating, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.33 level toward January 11.

On January 12, the rising of U.S. interest rates slowed down, and the U.S. dollar started to depreciate. The Singapore dollar strengthened as a result. Furthermore, in waiting for an announcement of additional economic stimulus measures by new U.S. President Joe Biden, risk-taking sentiment gradually grew in the market, leading the Singapore dollar to strengthen. On January 14, the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.32 level. However, on January 15, economic indices were released with weak figures while U.S. stock prices were falling. As a consequence, risk-averse sentiment grew in the market, changing the trend in the market, and the Singapore dollar started to depreciate against the U.S. dollar. On January 19, stock prices rallied, and overall Asian currencies strengthened again. Furthermore, stock prices continued rising toward January 21 while expectation continued growing for large-scale economic stimulus measures in the U.S., fueling risk-taking sentiment in the market once again. However, the U.S. dollar/Singapore dollar exchange rate fell only to the lower-SGD 1.32 level.

Thereafter, the Singapore dollar remained weak toward the end of the month. The Federal Open Market Committee (FOMC) meeting was held in the U.S. on January 26 and 27, as a result of which both the policy interest rate and measures of quantitative easing were maintained. The FOMC made it clear once again that economic aid will be maintained until the economy has fully recovered from the recession caused by the Covid-19 pandemic. However, as economic recovery was slow, market participants started to buy the U.S. dollar again, weakening the Singapore dollar. As a result, the U.S. dollar/Singapore dollar exchange rate has been sitting at the lower-SGD 1.33 level (as of January 28), even though the Singapore dollar once appreciated against the U.S. dollar to the lower-SGD 1.31 level at the beginning of the month.

2. Outlook for This Month

In February 2021, the Singapore dollar is forecast to appreciate against the U.S. dollar.

In January, market participants bought the Singapore dollar at the beginning of the month, and the U.S. dollar/Singapore dollar exchange rate once reached the lower-SGD 1.31 level. However, toward the end of the month, the Singapore dollar continued weakening. Since the end of last year, stock prices and Asian currencies had been appreciating, thanks to risk-taking sentiment in the market based on optimistic headlines from the Europe and the U.S., as well as due to expectation for the development of Covid-19 vaccines. This trend seems to be momentarily slowing down. However, as an overall outlook, the Singapore dollar is forecast to strengthen against the U.S. dollar in the times ahead, as the Singapore economy remains healthy.

Singapore has so far been particularly successful in containing the propagation of Covid-19 in the Asia-Oceania region. Even though employment-related indices are weak (unemployment has been at the 3% level), other major economic indices all have strong figures, demonstrating gradual recovery from the negative growth caused by the Covid-19 pandemic.

Furthermore, Singapore has moved from phase two to phase three of reopening its economy after the Covid-19 pandemic. This is likely to bring more-positive effects to the service sector in the times ahead with more economic activities.

The key measure against the Covid-19 crisis is vaccination, which is in progress. According to a statement released by the government, sufficient amounts of vaccines to cover the complete population of Singapore will be supplied by the third quarter of 2021, fueling expectations for the city-state's supply of the vaccine.

Under such circumstances, the economic outlook of Singapore for this year is contrary to that of last year, which was severely hit by the Covid-19 pandemic. The Singapore dollar is forecast to strengthen against various other currencies for the moment.

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

Thai Baht – February 2021

Expected Ranges **Against the US$: THB 29.80–30.20**
Against the yen: JPY 3.40–3.50

1. Review of the Previous Month

The U.S. dollar/Thai baht exchange market opened trading in 2021 at around the THB 30.00 level. In the U.S., the runoff elections for the U.S. Senate were held in Georgia on January 5, attracting significant attention in the market, and the Democratic Party won this election in addition to its victory in the presidential election, as well as in the election for the House of Representatives. As a result, risk-taking sentiment grew in the market, as market participants expected the U.S. government to soften its attitudes, and this led the U.S. dollar to depreciate. Following this trend, the U.S. dollar/Thai baht exchange rate fluctuated within the range between THB 29.80 and THB 30.00. However, due to the second wave of the Covid-19 pandemic, in spreading from the region of Bangkok to all of Thailand, the U.S. dollar/Thai baht exchange rate was kept from falling below the low recorded in December 2020. Then, on January 8, the December employment statistics of the U.S. were released, and the figures turned out to be weaker than expected, which led market participants to expect large-scale economic aid in the U.S. As U.S. interest rates rose as a result, the U.S. dollar/Thai baht exchange rate also approached the THB 30.10 level.

In the middle of the month, long-term U.S. interest rates rose, following which the U.S. dollar/Thai baht exchange rate rose to approach the THB 30.20 level. However, long-term U.S. interest rates fell significantly thereafter, once market participants had confirmed demand for 10-year U.S. government bonds at auction. As a consequence, the U.S. dollar/Thai baht exchange rate also fell rapidly to the THB 29.90 level. On January 14, the media reported on an economic aid package worth USD 1.9 trillion to be introduced by new U.S. President Joe Biden. However, the decision had been more or less anticipated in the market, and there was only limited reaction. On January 15, the central bank of Thailand made a remark that it would be necessary to cut the GDP growth rate outlook for 2021 due to Thailand being affected by the second wave of the Covid-19 pandemic. Furthermore, during local trading hours on the same day, the December retail sales of the U.S. were announced, recording negative growth from the previous month. As U.S. stock prices were also falling, risk-averse sentiment grew in the market. As a result, the U.S. dollar/Thai baht exchange rate rose to the THB 30.10 level again. On January 19, the appreciation of the U.S. dollar slowed down, and the Thai government approved an economic aid package amounting to THB 200 billion, to be paid to an estimated number of 30 million people. This led the exchange rate to approach THB 30.00 to the U.S. dollar.

At the end of the month, the government announced its decision to partially loosen lockdowns in Bangkok on January 21. Furthermore, the media reported that the Thai government had approved the Covid-19 vaccine from AstraZeneca. However, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range at the THB 29.90 level. Thereafter, market participants were concerned about the possibility for the economic aid package of approximately USD 1.9 trillion announced by the Democratic Party in the U.S. to be reduced due to disagreement from the opposition, and this led the U.S. dollar/Thai baht exchange rate to reach the THB 30 level.

However, as a Federal Open Market Committee (FOMC) meeting was scheduled for the last week of the month, the U.S. dollar/Thai baht exchange rate continued fluctuating mainly around the THB 29.90 level until the nighttime of January 27, at which the outcome of the meeting was to be announced. At the meeting, the FOMC took a decision to maintain the existing monetary policy, while also releasing a remark to fuel concerns over the economic outlook of the U.S. As a result, risk-averse sentiment grew in the market, and the U.S. dollar/Thai baht exchange rate rose to the THB 30 level. As of this writing, monthly trading was set to close at this level.

2. Outlook for This Month

As the inauguration of new U.S. President Joe Biden took place without any problems, long-term U.S. interest rates have been stable. Furthermore, U.S. stock prices remain at their all-time high level despite some instability observed toward the end of the month. The U.S. dollar/Thai baht exchange rate thus remained at around the THB 30 level throughout January.

In the middle of December, a second wave of the Covid-19 pandemic broke out in the west area of Bangkok and spread to the entire country. However, the Thai government reacted swiftly, and the number of new positive cases has decreased, allowing the government to gradually loosen lockdowns, depending on the sector. Thailand has thus started to normalize its economic activities again. Therefore, it is possible that market participants start investing in Thailand with a current account surplus and a relatively low public debt ratio as a percentage of GDP, as there have been fewer concerns over the propagation of the virus, which hit Thailand from the end of last year to the middle of January. However, in terms of the domestic household sector in Thailand, there is an estimate that the number of people in poverty will increase by approximately 1.5 million to 5 million in 2021 due to the Covid-19 crisis, while the household debt balance remains high, keeping domestic demand from growing in the times ahead. Thus, the U.S. dollar/Thai baht is not expected to continue falling even with the depreciation of the U.S. dollar. The U.S. dollar/Thai baht exchange rate is not likely to fall below the mid-THB 29.70 level, which is the most-recent lowest rate observed in December last year.

In terms of the possible appreciation of the U.S. dollar and the depreciation of the Thai baht, the U.S. dollar/Thai baht exchange rate is not likely to rise significantly, as new U.S. Secretary of the Treasury Janet Yellen made a remark at the confirmation hearing of the U.S. Senate such that large-scale fiscal aid plans would be more beneficial for the U.S. economy with interest rates at historic lows, while market participants remain optimistic thanks to the maintained measures of monetary easing in the U.S. as well as the high U.S. stock prices. Thus, the U.S. dollar/Thai baht exchange rate is forecast to continue fluctuating mainly within a range between THB 29.90 and THB 30.10 in February, as was the case in January.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – February 2021

Expected Ranges **Against the US$: MYR 4.000–4.1000**
Against the yen: JPY 25.32–25.97
Against 100 yen: MYR 3.8500–3.9500

1. Review of the Previous Month

In 2021, the U.S. dollar/Malaysian ringgit exchange market opened trading dramatically, with the exchange rate falling below the MYR 4.0 mark early in January. Thereafter, there was a series of domestic headlines that impacted the market, such as the reintroduction of the movement control order (MCO) on January 13 based on the spread of Covid-19 as well as the state of emergency declared on January 18 for the first time in approximately 52 years. Furthermore, there were also external factors such as the U.S. presidential election and the rise of crude oil prices. As a result, the U.S. dollar/Malaysian ringgit exchange rate fluctuated violently between MYR 3.994 and MYR 4.072.

At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange market opened trading with the exchange rate at the highest level. As there were few market transactions, the exchange rate once reached MYR 3.994 to the U.S. dollar, falling below the MYR 4.0 mark. Thereafter, the media reported that Saudi Arabia had promised to cut its oil production at the OPEC Plus meeting held on January 5, and this kept the crude oil market robust. Thus, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating with a strong Malaysian ringgit.

On January 8, the U.S. employment statistics were released, and the number of non-agricultural employees recorded negative growth for the first time in eight months. Market participants were conscious of the negative impact on the economy caused by the Covid-19 pandemic and were buying the U.S. dollar and selling the currencies of emerging countries in order to avert risk. As a result, the U.S. dollar/Malaysian ringgit exchange market opened at MYR 4.035 on January 11 after the weekend by rising from the closing rate of the previous trading day. Thereafter, long-term U.S. interest rates exceeded 1%, while the MCO was reintroduced for two weeks from January 13 and a state of emergency was declared on January 18. Thus, there was no positive domestic factor in Malaysia, leading the Malaysian ringgit to weaken toward the middle of the month. As a consequence, the U.S. dollar/Malaysian ringgit exchange rate exceeded MYR 4.07 on January 12 for the first time in approximately one month.

At the end of the month, the central bank of Malaysia announced a decision on monetary policy on January 20, and the policy interest rate was maintained at 1.75%. As market participants had been anticipating an interest rate cut based on the reintroduction of the MCO, the Malaysian ringgit was bought back immediately after this announcement of monetary policy, leading the U.S. dollar/Malaysian ringgit exchange rate to fall below the MYR 4.03 level. It should also be mentioned that the central bank released a statement to imply the possibility for an interest rate cut at the next meeting in March by describing that the current policy of monetary easing is appropriate, and this will be evaluated again based on new data and information, as the market remains instable due to the pandemic.

Toward the end of the month, there was almost no reaction to the outcome of the Federal Open Market

Committee (FOMC) meeting on January 28. However, the International Monetary Fund (IMF) released its world economic growth rate outlook on January 26, significantly raising the U.S. growth outlook for FY2021 to +5.1% (+2.0% from October). On the other hand, the figures for ASEAN countries were all revised downward, which was a negative factor for the Malaysian ringgit market. Then, on January 29, the December trade statistics of Malaysia demonstrated steady exports, encouraging market participants to buy back the Malaysian ringgit. As a result, the U.S. dollar/Malaysian ringgit exchange market closed trading at MYR 4.04.

2. Outlook for This Month

In February, the Malaysian ringgit is forecast to slightly depreciate against the U.S. dollar compared to January. In January, there were many negative factors for the Malaysian ringgit market, such as the reintroduction of the MCO (a state of emergency, declared for the first time in approximately 52 years) and the criticism against Prime Minister Muhyiddin Yassin regarding the declaration of this state of emergency, even though there were some positive factors as well, such as the crude oil market remaining robust. On the other hand, King Abdullah of Pahang declared the state of emergency by accepting the advice of Prime Minister Muhyiddin Yassin, and thus the country's general election will not be held at least until August 1, unless the state of emergency is lifted earlier than planned. Thus, it is unlikely that the depreciation of the Malaysian ringgit can be caused by political confusion.

The U.S. dollar is expected to remain weak globally, as has been the case since last year, as Federal Reserve Board (FRB) Chair Jerome Powell has announced a plan to maintain measures of monetary easing. Thus, market participants are likely to sell the U.S. dollar in February, making it difficult for the Malaysian ringgit to be sold.

It should also be mentioned that the Chinese New Year holidays will occur in February, making it unlikely for the Chinese yuan exchange market to fluctuate violently. Also, there are few factors for the crude oil market in February, as the next OPEC Plus meeting is scheduled for March. Furthermore, almost no reasons exist for buying the Malaysia ringgit as well, with concerns over the possible delay in the global supply of Covid-19 vaccines. Market participants are therefore likely to maintain a wait-and-see attitude in the U.S. dollar/Malaysian ringgit exchange market in the coming month.

Domestic events that could impact the Malaysian ringgit exchange market include the decision on the MCO, which was set to end on February 4. The number of new Covid-19 cases has been at an all-time high even under the MCO, and the Malaysian government is facing a difficult decision. While it is most likely for the government to shift to the Conditional Movement Control Order (CMCO), if the government decides to severely control economic activities, as the number of new Covid-19 cases is at an all-time high, this would be a negative factor for the Malaysian ringgit exchange market. Other than the decision on the MCO, the government is not likely to take any remarkable action while there is no significant external factor in the Chinese yuan exchange market or in the crude oil market.

For the above reasons, there are few influencing factors in the U.S. dollar/Malaysian ringgit exchange market in February, apart from possible U.S. dollar-buying and emerging currency-selling based on the rise of long-term U.S. interest rates and the announcement regarding the MCO, which was scheduled at the beginning of the month. Therefore, the U.S. dollar/Malaysian ringgit exchange rate is not likely to move into any direction, hovering at around the MYR 4.05 level.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – February 2021

Expected Ranges **Against the US$: IDR 13,800–14,300**
Against 100 rupiah: JPY 0.72–0.76
Against the yen: IDR 131.58–138.89

1. Review of the Previous Month

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

In January, the U.S. dollar/Indonesian rupiah exchange market opened trading at the IDR 13,900 level—below the IDR 14,000 mark. Risk-taking sentiment had been growing since the end of last year, thanks to expectation for the development of Covid-19 vaccines. As a consequence, the Indonesian rupiah strengthened against the U.S. dollar and the exchange rate once reached the upper-IDR 13,800 level. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at around the IDR 13,900 level. On January 8, however, U.S. interest rates rose, while the Indonesian government imposed stricter restrictions, mainly in Java and Bali, where the number of Covid-19 cases has been particularly high. As a result, the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 14,000 level once again. In the following week, the same trend continued on January 11. With growing risk-averse sentiment in the market, the Indonesian rupiah depreciated further against the U.S. dollar, and the exchange rate once reached the lower-IDR 14,200 level on January 12. However, on January 14, the Indonesian Parliament's legislative committee decided to shelf a plan to revise the act covering the central bank. Thus, the autonomy of the central bank of Indonesia was maintained. Then, on January 15, the following day, the annual trade balance of Indonesia was announced, revealing a trade surplus of USD 21.7 billion—the highest figure since 2011—and this led the Indonesian rupiah to rally. The U.S. dollar/Indonesian rupiah exchange rate then reached the lower-IDR 14,000 level.

In the second half of the month, the U.S. dollar/Indonesian rupiah exchange market became gradually inactive, waiting for the monetary policy meeting at the central bank of Indonesia scheduled for January 21. On January 21, the central bank of Indonesia decided to maintain its seven-day reverse repo rate—the policy interest rate of the country—at 3.75%. Governor of the central bank of Indonesia Perry Warjiyo made a remark at a press conference held online that he would take all possible measures to support economic recovery. However, as the outcome of the meeting had been anticipated, there was little impact from this in the market. Thereafter, the Indonesian rupiah remained robust even though domestic companies in Indonesia bought U.S. dollars at the end of the month. The U.S. dollar/Indonesian rupiah exchange rate thus remained at around the IDR 14,000 level (as of market closing on January 28).

2. Outlook for This Month

In February, the Indonesian rupiah is forecast to remain robust against the U.S. dollar.

As was discussed above, the Covid-19 situation in Indonesia worsened in January. The accumulative number of cases in Indonesia has already exceeded one million—the worst in Southeast Asia. Thus, Covid-19’s impact on the domestic economy is likely to persist for a while. Even under such circumstances, however, the Indonesian

rupiah remains strong against the U.S. dollar. This is mainly thanks to the fact that U.S. interest rates remain low due to monetary easing, making it easier for investor funds to move into emerging countries, while the chronic current account deficit has been either offset or significantly reduced by the trade surplus. While the Covid-19 pandemic is overwhelming the entire world, it is unlikely for U.S. interest rates to be raised for a long time, leading funds into emerging countries. With regard to trade balance as well, given the domestic Covid-19 situation in Indonesia, it would take time for imports to recover. Thus, the trade surplus of Indonesia is likely to continue increasing. Furthermore, as the situation supporting Indonesian rupiah-buying demand is likely to continue, the stability in the Indonesian rupiah market is expected to last during February.

Given the current situation in the Indonesian rupiah exchange market, there has been persistent possibility for the central bank of Indonesia to additionally cut interest rates. If interest rates are cut, the Indonesian rupiah is likely to depreciate temporarily. However, if investor sentiment remains optimistic, such depreciation would only be temporary.

Market participants should remain careful, however, as there is a risk scenario in which Covid-19 vaccines are not efficacious against one or some of the Covid-19 variants that have been confirmed in many places around the world, leading to the faster circulation of the virus and the rapid worsening of investor sentiment. It should be kept in mind that if investor sentiment worsens, the stability of the Indonesian rupiah exchange market could be lost, leading the Indonesian rupiah to weaken.

However, in general, the U.S. dollar/Indonesian rupiah exchange market is forecast to remain stable in February.

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

Philippine Peso – February 2021

Expected Ranges **Against the US$: PHP 47.80–48.60**
Against the yen: JPY 2.145–2.175

1. Review of the Previous Month

The foreign exchange market opened this year on January 4 with strong Asian currencies, thanks to risk-taking sentiment in the market.

Following this trend, the Philippine peso experienced upward pressure, and the U.S. dollar/Philippine peso exchange market opened trading at PHP 48.02, after which the exchange rate approached the PHP 48 mark—the support line maintained since the beginning of December last year.

However, the Philippine peso appreciated against the U.S. dollar only up to PHP 48.015 (the monthly high for the Philippine peso). There was persistent trend to buy the U.S. dollar, and the exchange rate did not fall below PHP 48 to the U.S. dollar. Thereafter, market participants bought back the U.S. dollar, as concerns grew over the spread of Covid-19 variants, while in the U.S., the runoff election for the two seats in the U.S. Senate in the state of Georgia was approaching.

Once the U.S. government became completely dominated by the Democratic Party, U.S. interest rates rose, weakening the upward pressure on the Philippine peso. As a result, the U.S. dollar/Philippine peso pair was traded at PHP 48.12 on January 8.

After the release of the December employment statistics of the U.S., the U.S. dollar index rose. However, the impact of this on the U.S. dollar/Philippine peso exchange market was limited.

Thereafter, Federal Reserve Board (FRB) Governor Jerome Powell made a series of dovish remarks, such as: that it was not the right time to discuss an exit strategy regarding the monetary policy, with its extremely low interest rates; that interest rates will not be raised soon unless no signs are apparent in the inflation rate; and that measures of quantitative easing would only be tapered after sufficient preparation and warning. These statements kept the U.S. dollar from appreciating.

Furthermore, under new U.S. President Joe Biden, former FRB Chair Janet Yellen was nominated as U.S. Secretary of the Treasury. At her confirmation hearing, she made a remark such that the U.S. would not seek a weaker U.S. dollar so as to gain an economic advantage, while underlining that the value of the U.S. dollar should be determined by the market. For market participants, who had been expecting her to give warning regarding the depreciation of the U.S. dollar as a result of the Covid-19 pandemic, her words turned out to be a source of relief in terms of selling the U.S. dollar.

As the stock market remained strong in the U.S., some market participants expected the U.S. dollar/Philippine peso exchange rate to finally reach the PHP 47 level on January 20. However, the exchange rate did not fall further from PHP 48.03.

Thereafter, the U.S. dollar/Philippine peso exchange rate reached a stalemate. Toward the end of the month, market participants bought back the U.S. dollar with growing risk-averse sentiment. Thus, the U.S. dollar/Philippine peso pair once traded at PHP 48.145 on January 28. However, the U.S. dollar did not appreciate further, and the U.S. dollar/Philippine peso pair traded at around PHP 48.10. Thus, the monthly high for the U.S.

dollar was likely to be PHP 48.15 (as of 10:00 a.m. on January 29).

2. Outlook for This Month

As Covid-19 vaccines have been developed and as vaccination has started in developed countries, market participants are expected to start preparing for a post-Covid-19 world. Many people are already talking about tapering measures of monetary easing, raising speculation about the depreciation of the U.S. dollar.

As a result, the global stock prices that rose with the extreme measures of monetary easing seen during the Covid-19 crisis could start falling in the times ahead.

The Philippine stock price index fell below the 7,000-point mark at market closing for the first time since November 27 last year as a result of growing risk-averse sentiment in the market. Market participants should keep in mind that the Philippine peso could start depreciating if the U.S. stock market collapses.

Many economic indices released last month indicate weakened upward pressure on the Philippine peso, as well as the possible depreciation of the Philippine peso.

(1) The November amount of Overseas Filipino Workers (OFW) remittances recorded positive year-on-year growth at +0.3%—significantly lower than the market estimate, which was +3.5% year-on-year. The total OFW remittances of last year recorded negative year-on-year growth, at –0.8%, as of November.

(2) The December trade balance of the Philippines recorded a deficit of USD 2.18 billion. The deficit grew from the USD 1.73 billion recorded last month and was larger than the USD 1.71 billion estimated in the market. This is due to the fact that the import of electric appliances increased. Market participants should keep an eye on future increases in imports as the economy recovers from the Covid-19 crisis.

(3) The fourth-quarter GDP growth rate of the Philippines turned out to be –8.3% year-on-year, which is weaker than the market estimate of –7.9% year-on-year. The annual GDP growth rate for 2020 turned out to be –9.5% year-on-year—the worst since 1946, when record-keeping started. However, the figure is certainly better than the –11.4% year-on-year recorded in the third quarter.

The changes observed in the market so as to reflect expectation for the post-Covid-19 world are only temporary. As long as U.S. monetary authorities are committed to measures of extreme monetary easing from a medium- to long-term perspective, it is still too early to expect the Philippine peso to depreciate against the U.S. dollar based on the anticipation that demand will return to the level seen before the Covid-19 crisis.

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

Indian Rupee – February 2021

Expected Ranges **Against the US$: INR 72.00–75.00**
Against the yen: JPY 1.39–1.45

1. Review of the Previous Month

In January, the U.S. dollar/Indian rupee exchange rate once rose before returning to the level observed at the beginning of the month.

In the Mumbai market, which opened on January 1, the U.S. dollar/Indian rupee pair started trading in 2021 at INR 73.08. While the liquidity level remained low, the Chinese yuan appreciated significantly against the U.S. dollar on January 4, and this led overall Asian currencies to appreciate. Following this trend, the U.S. dollar/Indian rupee exchange rate once fell below the INR 73.00 mark. However, the exchange rate did not stay at the INR 72 level for a long time. As geopolitical risk increased between Iran and the U.S., market participants started buying the U.S. dollar. Under such circumstances, the Indian monetary authorities intervened in the market on January 7 by buying the U.S. dollar and selling the Indian rupee in large sums, which led the U.S. dollar/Indian rupee exchange rate to rise to the mid-INR 74 level.

In the second week of the month, U.S. interest rates rose with mounting expectation for economic stimulus measures in the U.S. As a consequence, the U.S. dollar index reached its high for the first time in three weeks, leading the U.S. dollar/Indian rupee exchange rate to also reach its monthly high, at INR 73.505, on January 11. However, an official from the Federal Reserve Board (FRB) made a remark thereafter that the measures of monetary easing would be maintained in the times ahead, and this slowed down the rise of U.S. interest rates. The appreciation of the U.S. dollar also slowed down, as a result of which the U.S. dollar/Indian rupee exchange rate peaked out and started to fall. On January 14 and 15, the U.S. dollar/Indian rupee exchange rate once fell below the INR 73.00 level. However, the Indian monetary authorities promptly intervened in the market, keeping the exchange rate from falling further.

In the third week of the month, U.S. Secretary of the Treasury Janet Yellen supported expanded fiscal spending for the purpose of economic aid, and this led the U.S. dollar to depreciate against many other currencies. Under such circumstances, the U.S. dollar/Indian rupee exchange rate fell below the INR 73.00 level again. In the last week of the month, the U.S. dollar/Indian rupee exchange rate remained low and reached INR 72.78 on January 27—the monthly low. As of January 28, when this article was being written, the U.S. dollar/Indian rupee pair was trading at the INR 73.04 level.

2. Outlook for This Month

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

In January, the main factors in the U.S. dollar/Indian rupee exchange market were the same as in November and December, which saw capital inflow of USD 18 billion into the Indian stock market. In January, there was capital inflow of over USD 3 billion, thanks to the issuance of new stock by Indian Railway Finance Corporation and Indigo Paints, which encouraged market participants to sell the U.S. dollar and buy the Indian rupee. On the

other hand, the Indian monetary authorities have constantly intervened in the market by buying the U.S. dollar and selling the Indian rupee when the U.S. dollar/Indian rupee exchange rate fell below the INR 73.00 level. Therefore, from the viewpoint of traders, it has been difficult to hold U.S. dollar short positions at this level toward creating a downtrend. On January 27, the U.S. dollar/Indian rupee exchange rate reached INR 72.78, and, on the chart, this is the lowest U.S. dollar rate since September last year. However, there are not that many market participants that expect the U.S. dollar to depreciate further from there. On the contrary, more market participants expect the U.S. dollar/Indian rupee exchange rate to return to the INR 73 level with expected market interventions. For this reason, the U.S. dollar/Indian rupee exchange rate did not move into any direction, fluctuating both upward and downward, as was the case last month. This trend is likely to continue in February.

The only difference between last month and this month can be seen in the U.S. dollar exchange market. The U.S. dollar continued depreciating slowly but constantly since March last year, in which the U.S. dollar reached its peak with capital inflow based on risk-averse sentiment upon the outbreak of the Covid-19 crisis. However, the U.S. dollar index shows that the U.S. dollar bottomed out in January. Even though it is too early for market participants to feel relief, there is some reassuring information such as that the number of daily new Covid-19 cases in the U.S., which exceeded 400,000 at the beginning of January, has now decreased to the 100,000 level. If vaccination continues smoothly in the times ahead, it would not be surprising for market participants to buy back the U.S. dollars that they sold during the pandemic.

This report was prepared based on economic data as of February 1, 2021.

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